CHAPTER-IV

WORKING CAPITAL MANAGEMENT
The management of working capital is one of the most, if not the most, important duties of the manager of the small firm. It has been said many times that large firms tend to be profit oriented, whereas small firms are cash flow oriented; that is, managers of the latter group are more concerned with the speed and regularity with which assets change their form than they are with the "bottom-line figure". This changing process is vital not only to the success of the small firm but to its survival. That is if assets do not change their form at a desired rate, profit as well as the liquidity position of the firm are affected.\(^1\)

(A) OVERALL VIEW

Concepts

There are two concepts of working capital: gross working capital and net working capital. Gross working capital is the total of all current assets. The constituents of current assets are shown in Part A of Table 4. Net working capital is the difference between current assets and current liabilities. The constituents of current liabilities are shown in part B of Table 4. Management of working capital refers to the management of current assets as well as current liabilities. The major thrust of course is on the management of current assets as well as current liabilities. This is understandable because current liabilities arise in the context of current assets.

Table 4

CONSTITUENTS OF CURRENT ASSETS AND CURRENT LIABILITIES

<table>
<thead>
<tr>
<th>Part A: Current Assets</th>
<th>Part B: Current Liabilities</th>
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<tr>
<td>Inventories</td>
<td>Sundry Creditors</td>
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<td>Raw Material and Components</td>
<td>Trade Advances</td>
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<td>Work in Progress</td>
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<td>Finished Goods</td>
<td>Commercial Banks</td>
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<td>Others</td>
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<td>Trade Debtors</td>
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<td>Cash and Bank Balances</td>
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\(^1\)”
Significance of Working Capital Management

The management of working capital is important for several reasons. For one thing, the current assets of a typical manufacturing firm account for over half of its total assets. For a distribution company, they account for even more. Even a public utility with little in the way of inventories, has a sizeable investment in accounts receivable. If a company is to operate efficiently, receivables and inventories must be tightly monitored and controlled. This is particularly important for fast growing company because the investment in such assets can quickly mushroom out of control. Excessive levels of current assets can easily result in a firm realizing a substandard return on investment. However, firms with too few current assets may incur shortages and difficulties in maintaining smooth operations.

For small companies, current liabilities are the principal source of external financing. These firms do not have access to the longer-term capital markets capital, other than to acquire a mortgage on a building. The fast-growing but larger company also makes use of current liability financing. For these reasons, the financial manager and staff devote a considerable portion of their time to working capital matters. The management of cash, marketable securities, accounts receivable, accounts payable, accruals and other means of short-term financing is the direct responsibility of the financial manager; only the management of inventories is not. Moreover, these management responsibilities require continuous, day-to-day supervision. Unlike dividend and capital structure decisions, you cannot study the issue, reach a decision, and set the matter aside for many months to come. Thus, working capital management is important, if for no other reasons then the proportion of the financial manager's time that must be devoted to it. More fundamental, however, is the effect that working capital decisions have on the company's risk, return and share price.

FACTORS INFLUENCING WORKING CAPITAL REQUIREMENTS

The working capital needs of a firm are influenced by numerous factors: the important ones are:

* Nature of business.
* Seasonally of operations.
Nature of Business

The working capital requirement of a firm is closely related to the nature of its business. A service firm, like an electricity undertaking or transport corporation, which has a short operating cycle and which sells predominantly on cash basis, has a modest working capital requirement. On the other hand, a manufacturing concern like a machine tool unit, which has long operating cycle, and which sells largely on credit, has a very substantial working capital requirement.

Seasonality of Operations

Firms which have marked seasonality in their operations usually have highly fluctuating working capital requirement. To illustrate, consider a firm manufacturing ceiling fan. The sale of ceiling fan reaches a peak during the summer months and drops sharply during the winter period. The working capital need of such a firm is likely to increase considerably in summer months and decrease significantly during winter period. On the other hand, a firm manufacturing a product like lamps, which have fairly even sales round the year, tends to have stable working capital needs.

Production Policy

A firm marked by pronounced seasonal fluctuation in its sales may pursue a production policy which may reduce the sharp variations in working capital requirements. For example, a manufacturer of ceiling fans may maintain a steady production throughout the year rather than intensify the production activity during the peak business season. Such a production policy may dampen the fluctuations in working capital requirements.

Market Conditions

The degree of competition prevailing in the market place has an important bearing on working capital needs. When competition is keen, a larger inventory of finished goods is required to promptly serve customers who may not be inclined to wait because other
manufacturers are ready to meet their needs. Further, generous credit terms may have to be offered to attract customers in a highly competitive market. Thus, working capital needs tend to be high because of greater investment in finished goods inventory and accounts receivable.

If the market is strong and competition is weak, a firm can manage with smaller inventory of finished goods because customers can be served with delay. Further, in such situation, the firm can insist on cash payment and avoid lock up of funds in accounts receivable- it even can ask for advance payment, partial or total.

**Conditions of Supply**

The inventory of raw materials, spares, and stores depends on the conditions of supply. If the supply is prompt and adequate, the firm can manage with small inventory. However, if the supply is unpredictable and scant then the firm, to ensure continuity of production, would have to acquire stock as and when they are available and carry larger inventory on an average. A similar policy may have to be followed when the raw material is available only seasonally and productions are carried out round the year.

**WORKING CAPITAL POLICY**

Two important issues in formulating the working capital policy are:

1. What should be the ratio of current assets to sales?
2. What should be the ratio of short-term financing to long term financing?

(1) **Current Assets in Relation to Sales**

If the firm can forecast accurately its level and pattern of sales, inventory procurement time, inventory usage rates, level and pattern of production, production cycle time, split between cash sales and credit sales, collection period, and other factors which impinge on working capital components, the investment in current assets can be defined uniquely. When uncertainty characterises the above factors, as it usually does, the investment in current assets cannot be specified uniquely. In face of uncertainty, the outlay on current assets would consist of a base component meant to meet normal requirements and a safety component meant to cope with unusual demands and
requirements. The safety component depends on how conservative or aggressive is the current asset policy of the firm. If the firm pursues a very conservative current asset policy it would carry a high level of current assets in relation to sales. (This happens because the safety component is substantial.) If the firm adopts a moderate current asset policy, it would carry a moderate level of current assets in relation to sales. Finally if the firm follows a highly aggressive current asset policy, it would carry a low level of current assets in relation to sales.

What are the likely consequences of conservative and aggressive current asset policies? A conservative current asset policy tends to reduce risk. The surplus current asset under this policy enable the firm to cope rather easily with variations in sales, production plans, and procurement time. Further, the higher liquidity associated with this policy diminishes the chances of technical insolvency. The reduction of risk however, is also accompanied by lower expected profitability.

An aggressive current asset policy, seeking to minimize the investment in current assets, exposes the firm to greater risk. The firm may be unable to cope with unanticipated changes in the market place and operating conditions. Further, the risk of technical insolvency becomes greater. The compensation for higher risk, of course is higher expected profitability.

(2) Ratio of Short-term financing to Long Term Financing

Current assets of a firm are supported by spontaneous current liabilities, short-term bank financing and long-term sources of finances. Assuming that the level of spontaneous current liabilities is determined by extraneous factors (trade practice, income-tax payment schedule, etc.), the relevant question in current asset financing is: What should be the relative proportions of short-term bank financing, on the one hand and long-term source of finance, on the other? The two broad policy of alternatives, in this respect, are: (1) a conservative current asset financing policy, and (2) an aggressive current asset financing policy.

A conservative current asset financing policy relies less on short-term bank financing and more on long-term sources like debentures. Indeed, a highly conservative
current asset financing policy would seek to replace even long-term debt by equity or owners fund. An aggressive current asset financing policy, on the other hand, relies heavily on short-term bank finance and seeks to reduce dependence on long-term financing.

What are the likely consequences of these alternatives? A conservative current asset financing policy reduces the risk that the firm will be unable to replace its short-term debt periodically. It, however, enhances the cost of financing because the long-term source of finance, debt and equity, have a higher cost associated with them.

An aggressive current asset financing policy, relying more on short-term bank financing, tends to have the opposite effects. It exposes the firm to a higher degree of risk, but reduces the average cost of financing.

Choosing the Working Capital Policy

The choice of an overall working capital policy would depend on the risk disposition of management. An overall conservative working capital policy offers moderate returned accompanied with moderate risk. An overall aggressive working capital policy provides a package of high risk and high return.

(B) CASH MANAGEMENT

The management of cash flows is one of the most important functions of the management of small firms. While it is difficult to prove statistically, it is believed that the failure to manage cash flows effectively is a primary reason for the extremely high casualty rate among small and middle sized firms. Numerous examples could be sited but would serve no useful purpose because each firm is unique and cash flow problems result for many different reasons. Included below is a discussion of ways and means of optimizing the cash flows of the small firm.

All firms regardless of size, type or location have the same types of motives for holding cash: transaction, precautionary, and speculative. The cash held for transaction motive is used to meet the normal cash requirements of the business. Although the majority of a firm's cash inflows and outflows are nonrandom and predictable, some are
random and, in some cases, impossible to predict. If all flows were nonrandom, the cash position of the firm would be minimized; unfortunately the cash flows in small firms can and are usually highly unpredictable. These random flows along with abnormal cash needs are provided for by precautionary cash balances and lines of credit. The size of the precautionary cash balance should be directly related to the firm’s risk-taking ability and attitude. If management is adverse to risk, the precautionary balance will be larger than if management were willing to assume risk or if it possesses a strong credit rating at some financial institution such as a bank. As a general rule, the larger firms will invest this precautionary balance in such marketable securities as treasury bills and commercial paper in order to offset a complete loss of return. Small businesses, on the other hand, find it extremely difficult to invest their excess cash in such instruments and therefore “lose” the profit from these investments. The final reason for holding cash - speculative purposes - allow management to take advantage of profitable opportunities. For example, management may maintain large cash balances in order to be able to take advantage of an anticipated price increase. The ultimate in speculation occurs when production assets are exchanged for cash in anticipation of a major break in the economy. In general, a business should not speculate with cash balances, this being true, no further attention will be given to this particular reason for holding cash.

Objectives of Cash Management

The basic objectives of cash management are two-fold: (a) to meet the cash disbursement needs (payment schedule); and (b) to minimize funds committed to cash balances. These are conflicting and mutually contradictory and the task of cash management is to reconcile them.

(a) Meeting the Payments Schedule

In the normal course business firms have to make payments of cash on a continuous and regular basis to supplier of goods, employees and so on. At the same time, there is a constant inflow of cash through collections from debtors. Cash is therefore aptly described as the “oil to lubricate the ever-turning wheels of business: without it the process grinds to a stop.” A basic objective of cash management is to meet the payment schedule, i.e. to have sufficient cash to meet the cash disbursement needs of a firm.
Minimizing Funds Committed to Cash Balances

The second objective of cash management is to minimize cash balances. In minimizing the cash balances two conflicting aspects have to be reconciled. A high level of cash balances facilitate prompt payment, but it also implies that large funds will remain idle, as cash is non-earning asset and the firm will have to forego profits. A low level of cash balances, on the other hand, may mean failure to meet the payment schedule. The aim of cash management should be have an optimal amount of cash balances.

Keeping in view these conflicting aspects of cash management, we propose to discuss the planning/determination of the need for cash balances. There are two aspects involved in cash planning; First an examination of those factors which have a bearing on the firms required cash balances. Second, a review of the approaches to reach an optimum cash balance.

Factors Determining Cash Needs

The factors that determine the required cash balances are:

Synchronization of Cash Flow

The need for maintaining cash balances arise from the non-synchronization of the inflows and outflows of cash: if the receipts and payments of cash perfectly coincide or balance each other there would be no need for cash balances. The first consideration in determining the cash need is, therefore, the extent of non-synchronization of cash receipts and disbursements. For this purpose, the inflows and outflows have to be forecast over a period of time, depending upon the planning horizon which is typically a one-year period with which of the 12 months being a sub-period. The technique adopted is a cash budget. The preparation of a cash budget is discussed later on in this chapter. A properly prepared cash budget will pinpoint the months when the firm will have an excess or a shortage of cash.

Short Costs

Another general factor to be considered in determining cash needs is the cost associated with a short fall in the firm's cash needs. The cash forecast presented in the
cash budget would reveal periods of cash shortages. In addition, there may be some unexpected shortfalls. Every shortage of cash—whether expected or unexpected— involves a cost “depending upon the severity, duration and frequency of the shortfall and how the shortage is covered. Expenses incurred as a result of shortfall are called short costs.”

**Excess Cash Balance Costs**

Another consideration in determining cash needs is the cost associated with maintaining excess/idle cash. The cost of having excessively large cash balances is known as excess cash balance cost. If large funds are idle, the implication is that the firm has missed opportunities to invest those funds and has thereby lost interest which it would otherwise have earned. This loss of interest is primarily the excess cost.

**Procurement and Management**

These are the costs associated with establishing and operating cash management staff and activities. They are generally fixed and mainly accounted for salary, storage, handling of securities, etc.

**Uncertainty and Cash Management**

Finally, the impact of uncertainty on cash management strategy is also relevant as cash flows cannot be predicted with complete accuracy. The first requirement is a precautionary cushion to cope with irregularities in cash flows, unexpected delays in collection and disbursements, defaults and unexpected cash needs.

The impact of uncertainty on cash management can, however, be mitigated through (i) improved forecasting of tax payments, capital expenditure, dividends, etc. (ii) increased ability to borrow through overdraft facility.

**DETERMINING CASH NEED - CASH BUDGET**

After the examination of the pertinent considerations and costs that determine cash needs, the next question deals with the determination of a firm's cash needs.

There are three approaches to derive an optimal cash balance, namely, (a) Minimizing Cost Model, (b) Minimizing Cost Model with precautionary balances, and (c)
Cash Budget. Since the first two approaches are mathematical, we confine ourselves to the last, i.e. the cash budget.

**CASH BUDGET : CASH MANAGEMENT TOOL**

It has been shown in the preceding sections that a firm is well-advised to hold adequate cash balances but should avoid excessive balances. The firm has, therefore, to assess its needs for cash properly. The cash budget is probably the most important tool in cash management. It is a device to help a firm to plan and control the use of cash. It is a statement showing the estimated cash income (cash inflow) and cash expenditure (cash outflow) over the firm's planning horizon. In other words, the net cash position (surplus or deficiency) of a firm as it moves from one budgeting sub-period to another is highlighted by the cash budget.

The purpose of cash budgets are:

1. to co-ordinate the timings of cash needs. It identifies the periods when there might either be a shortage of cash or an abnormally large cash requirement;
2. it pinpoints the period when there is likely to be EXCESS CASH;
3. it enables a firm which has sufficient cash to take advantage of cash discounts on its account payable, to pay obligations when due, to formulate dividend policy, to plan financing of capital expansion and to help unify the production schedule during the year so that the firm can smooth out costly seasonal fluctuations;
4. finally, it helps to arrange needed funds on the most favorable terms and prevents the accumulation of excess funds. With adequate time to study, his firm's needs, the manager can select the best alternative.

**(C) RECEIVABLES MANAGEMENT**

Trade credit is the most prominent source of the modern business. It is considered as an essential marketing tools, acting as a bridge for the movement of goods through production and distribution stages to customers finally. A firm grants trade credit to protect its sales from the competitors and to attract the potential customers to buy its products at favorable terms. When the firm sells its products or services and does not receive cash for it immediately, the firm is said to have granted trade credit to customers.
Trade credit, thus, creates receivables or book debts which the firm is expected to collect in the near future. The book debts or receivables arising out of credit has three characteristics:\(^7\) First it involves an element of risk which should be carefully analyzed. Cash sales are totally riskless, but not the credit sales as the cash payment has yet to be received. Second, it is based on economic value. To the buyer, the economic value in the goods or services passes immediately at the time of sale, while the seller expect an equivalent value to be received later on. Third, it implies futurity. The cash payment for goods or services received by the buyers will be made by him in future.

Receivables constitute a substantial portion of current asset of several firms. For example, in India, trade debtors, after inventories, are the major components of current assets. They form about one third of current assets in India. As substantial amounts are tied-up in trade debtors, it needs careful analysis and proper management.

**OBJECTIVES OF RECEIVABLE MANAGEMENT**

The term receivables is defined as "debt owed to the firm by customers arising from sale of goods or services in the ordinary course of business". The sale of goods on credit is an essential part of the modern competitive economic system. As a marketing tool, they are intended to promote sales and thereby profits. However, extension of credit involves risk and cost. Management should weigh the benefits as well as cost to determine the goal of receivable management. Thus, the objective of Receivable management is "to promote sales and profits until that point is reached where the return on investment in future funding of Receivable is less than the cost of funds raised to finance that additional credit (i.e. cost of capital)".\(^8\) The specific costs and benefits which are relevant to the determination of the objectives of receivables management are examined below.

(a) Costs

The major categories of costs associated with the extension of credit and accounts receivable are: (1) Collection cost, (2) capital cost, (3) delinquency cost, and (4) Default cost.
Collection Cost

The costs are administrative costs incurred in collecting the receivables from the customers to whom credit sales have been made. Included in this category of costs are:

(a) additional expenses on the creation and maintenance of a credit department with staff, accounting records, stationery, postage and other related items;

(b) expenses involved in acquiring credit information either through outside specialist agencies or by the staff of the firm itself. These expenses would not be incurred if the firm does not sell on credit.

Capital Cost

The increased level of accounts receivable is an investment in assets. They have to be financed thereby involving a cost. There is a time lag between the sale of goods to, and payment by, the customers. Meanwhile, the firm has to pay employees and suppliers of raw materials thereby implying that the firm should arrange for additional funds to meet its own obligations while waiting for payment from its customers. The cost on the use of addition capital to support credit sales, which alternatively could be profitable employed elsewhere, is therefore, a part of the cost of extending credit or receivables.

Delinquency Cost

Yet another cost is associated with extending credit to customers. This arises out of the failure of the customers to meet their obligations when payment on credit sales become due after the expiry of the period of credit. Such costs are called delinquency costs. The important components of this cost are:

(i) blocking-up of funds for an extended period;
(ii) cost such as, remainders and other collection efforts, legal charges, where necessary, and so on.

Default Cost

Finally, in addition to the above costs, the firm may not be able to recover the over dues because of the inability of the customers. Such debts are treated as bad debts and have to be written off as they cannot be realized. Such costs are known as default costs associated with credit sales and accounts receivable.
(b) Benefits

Apart from the cost, another factor that has a bearing on accounts receivable management is the benefit emanating from credit sales. The benefits are the increased sales and profits anticipated because of a more liberal policy. The impact of a liberal policy of trade credit is likely to have two forms. First, it is oriented to sales expansion. In other words, a firm may grant trade credit either to increase sales to existing customers or attract new customers. This motive for investment in receivables is growth-oriented. Secondly, the firm may extend credit to protect its current sales against emerging competition. Here the motive is sales-retention. As a result of increased sales the profits of the firm will increase.

From the above discussion it is clear that investment in receivables involve both benefits and costs. The extension of trade credit has a major impact on sales, costs and profitability. Other things being equal, a relatively liberal policy and, therefore, higher investments in receivables, will produce larger sales. However costs will be higher with liberal policies than with more stringent measures. Therefore, accounts receivable management should aim at a trade-off between profit(benefit) and risk (costs). That is to say, the decision, to commit funds to receivables will be based on a comparison of the benefits and costs involved while determining the optimum level of receivables. The costs and benefits to be compared are marginal costs and benefits. The firm should only consider the incremental benefits and costs that result from a change in the receivables or trade credit policy.

CREDIT POLICIES

In the preceding discussions it has been clearly shown that the firm's objective with respect to receivables management is not merely to collect receivables quickly but attention should also be given to the benefit-cost trade-off involved in the various areas of accounts receivables management. The first decision area is credit policies.

The credit policy of a firm provides the framework to determine (a) whether or not to extend credit to customer and (b) how much credit to extend. The credit policy decision of a firm has two broad dimensions: (i) Credit standards and (ii) credit analysis.
A firm has to establish and use standards in making credit decisions, develop appropriate sources of credit information and methods of credit analysis. We will illustrate below how these two aspects are relevant to the accounts receivable management of a firm.

**Credit Standards**

The term credit standards represent the basic criteria for the extension of credit to customers. The quantitative basis of establishing credit standards are factors such as credit ratings, credit references, average payments period and certain financial ratio. Since we are interested in illustrating the trade-off between benefit and cost to the firm as a whole, we do not consider here these individual components of credit standards. To illustrate the effect, we have divided the overall standards into (a) tight or restrictive, and (b) liberal or non-restrictive. That is to say, our aim is to show what happens to the trade-off when standards are relaxed or alternatively, tightened. The trade-off with reference to credit standards covers (i) the collection cost, (ii) the average collection period, (iii) level of bad debt losses, and (iv) level of sales. These factors should be considered while deciding whether to relax credit standards or not. If standards are relaxed, it means more credit will be extended. while if standards are tightened, less credit will be extended. Let us elaborate the implications of the four factors.

(i) **Collection Costs**

The implications of relaxed credit standards are (1) more credit, (2) a larger credit department to service accounts and related matters, (3) increase in collection costs. The effect of tightening of credit standards will be exactly the opposite. These costs are likely to be semi-variable as upto a certain point the existing staff will be able to carry on the increased workload, but, beyond that additional staff would be required. These are assumed to be included in the variable cost per unit and need not be separately identified.

(ii) **The Average Collection Period**

The investment in accounts receivables involves a capital cost as funds have to be arranged by the firm to finance them till customers make payments. Moreover, the higher the average accounts receivable, the higher the capital or carrying cost. A change in the
credit standards—relaxation or tightening—leads to a change in the level of accounts receivable either (a) through a change in sales or (b) through a change in collections.

A relaxation in credit standard, as already stated, implies an increase in sales which, in turn, would lead to higher average accounts receivable. Further, relaxed standards would mean that credit is extended liberally so that it is available to even less-credit worthy customers who will take a longer period to pay over dues. The extension of trade credit to slow paying customers would result in a higher level of accounts receivables.

In contrast, a tightening of credit standards would signify (1)a decrease in sales and lower average accounts receivable, (2)an extension of credit limited to more credit worthy customers who can promptly pay their bills and, thus, a lower average level of accounts receivable.

(iii) Bad Debt Expenses or Losses

Another factor which is expected to be affected by changes in credit standards is bad debt expenses. They can be expected to increase with relaxation in credit standards and decrease as credit standards become more restrictive.

(iv) Sales Volume

Changing credit standards can also be expected to change the volume of sales. As standards are relaxed, sales are expected to increase, conversely, a tightening is expected to cause a decline in sales.

Credit Analysis

Besides establishing credit standards, a firm should develop procedures for evaluating credit applicants. The second aspect of credit policies of a firm is credit analysis and investigation. Two basic steps are involved in the credit investigation process: (a) obtaining credit information, and (b) analysis of credit information. It is on the basis of credit analysis that the decisions to grant credit to a customer as well as the quantum of credit would be taken.
CREDIT TERMS

The second decision-area in accounts receivable management is the credit terms. After the credit standards have been established and the credit-worthiness of the customers has been assessed, the management of a firm must determine the terms and conditions on which trade credit will be made available. The stipulations under which goods are sold on credit are referred to as credit terms. Credit terms specify the repayment terms of receivables.

Credit terms have three components: (a) credit period, (b) cash discount, and (c) cash discount period, which refers to the duration during which the discount can be availed of.

The credit terms, like the credit standards, affect the profitability as well as the cost of a firm. A firm should determine the credit terms on the basis of cost-benefit trade-off.

COLLECTION POLICIES

The third area involved in the accounts receivable management are collection policies. They refer to the procedures followed to collect accounts receivable when, after the expiry of the credit period, they become due. These policies cover two aspects: (i) degree of effort to collect the over dues, and (ii) type of collection efforts.

Degree of Collection Effort

To illustrate the effect of the collection effort, the credit policies of a firm may be categorised into (i) strict/light, and (ii) lenient. The collection policy would be light if very rigorous procedures are followed. A tight collection policy has implications which involve benefits as well costs. The management has to consider the trade-off between them. Likewise, a lenient collection effort also affects the cost-benefit trade-off.

Type of Collection Efforts

The second aspect of collection policies relates to the steps that should taken to collect over-dues from the customers. A well-established collection policy should have
clear cut guidelines as to the sequence of collection effort. After the credit period is over and payment remains due, the firm should initiate measures to collect them. The effort should in the beginning be polite, but, with the passage of time it should become gradually more strict and stern. The steps usually taken are (i) letters; (ii) telephone calls for personal contact; (iii) personal visits (iv) help of collection agencies; and finally; (v) legal action. The firm should take recourse to very stringent measures, like legal action, only after all other avenues have been fully exhausted. They not only involve a cost but also affect the relationship with the customers. The aim should not be to collect as early as possible; genuine difficulties of the customers should be given due consideration.

(D) INVENTORY MANAGEMENT

Inventories constitute the most significant part of current assets of large majority of companies in India. On an average, inventories are approximately 60 per cent of current assets in public limited companies in India. In small firms the percentage of inventory in relation to current assets is also very high. Because of the large size of inventories maintained by firms, a considerable amount of funds is required to be committed in them. It is, therefore, absolutely imperative to manage inventories efficiently and effectively in order to avoid unnecessary investments in them. A firm neglecting the management of inventories will be jeopardizing its long run profitability and may fail ultimately. It is possible for a firm to reduce its levels of inventories to a considerable degree, eg. 10 to 20 percent, without any adverse effect on production and sales, by using simple inventory planning and control techniques.

NATURE OF INVENTORIES

The term inventory refers to the stockpile of the product a firm is offering for sale and the components that make up the product. The various forms in which inventories exist in a manufacturing company are: raw material, work in progress and finished goods. Raw materials are those basic inputs that are converted into finished product through the manufacturing process. Raw materials inventories are those units which have been purchased and stored for future production. Work in progress inventories are semi manufactured products. They represent products that need more work before they become finished products for sale. Finished goods inventories are those completely manufactured
products which are ready for sale. Stocks of raw materials and work in progress facilitate production, while stock of finished goods is required for smooth marketing operations. Thus, inventories serve as a link between the production and consumption of goods.

The levels of three kinds of inventories for a firm depend on the nature of its business. A manufacturing firm will have substantially high level of all three kinds of inventories, while a retail, or wholesale, firm will have a very high level of finished goods and no raw material and work in process inventories.

A fourth kind of inventory, supplies, are also maintained by firms. Supplies include office and plant cleaning materials (soap, brooms etc.) oils, fuels, light bulbs and the like. These materials do not directly enter production, but are necessary for production process. Usually, these supplies are small part of the total inventory and do not involve significant investment. Therefore, a sophisticated system of inventory control may not be maintained for them.

**NEED TO HOLD INVENTORIES**

The question of managing inventories arises only when the firm holds inventories. Maintaining inventories involve tying up of the firm's funds and incurrence of storage and handling costs. If it is expensive to maintain inventories, why do firms hold inventories? There are three general motives for holding inventories.

1. The transaction motive which emphasizes the need to maintain inventories to facilitate smooth production and sales operations.
2. The precautionary motive which necessitates holding of inventories to guard against the risk of unpredictable changes in demand and supply forces and other factors.
3. The speculative motive which influences the decision to increase or reduce inventory levels to take advantage of price fluctuations.

A firm should maintain adequate stock of materials for continuous supply to the factory for an uninterrupted production. It is not possible for a firm to procure raw material whenever it is needed. A time lag exists between demand for materials and its supply. Also, there exists uncertainty in procuring raw materials in time at many
occasions. The procurement of raw materials may be delayed because of such factors as strike, transport disruption or short supply. Therefore, the firm should maintain sufficient stock of raw materials at a given time to streamline production. Other factors which may necessitate purchasing and holding of raw materials inventories are quantity discounts and anticipated price increase.

Work in process inventory builds up because of the production cycle. Production cycle is the time span between introduction of raw material into production and emergence of finished product at the completion of production cycle. Till production cycle completes, stock of work in process has to be maintained. Efficient firms constantly try to make production cycle smaller by improving their production techniques.

Stock of finished goods has to be held because production and sales are not instantaneous. A firm cannot produce immediately when goods are demanded by customers. Therefore, to supply finished goods on a regular basis, their stock has to be maintained. Stock of finished goods has also to be maintained for sudden demands from customers. In case the firm's sales are seasonal in nature, substantial finished goods inventories should be kept to meet the peak demand. The level of finished goods inventories would depend upon the coordination between sales and production as well as on production time. If there is close link between sale and production, a small finished goods inventory could be maintained and still customers' needs could be met.

OBJECTIVES OF INVENTORY MANAGEMENT

The aim of inventory management should be to avoid excessive and inadequate levels of inventories and to maintain sufficient inventory for the smooth production and sales operations. Efforts should be made to place an order at the right time with the right source to acquire the right quantity at the right price and quality. An effective inventory management should:

1. ensure a continuous supply of materials to facilitate uninterrupted production,
2. maintain sufficient stocks of raw materials in periods of short supply and anticipate price changes,
3. maintain sufficient finished goods inventory for smooth sales operations and efficient customer service,
4. minimise the carrying cost and time, and
5. control investment in inventories and keep it at an optimum level.

INVENTORY MANAGEMENT TECHNIQUES

In managing inventories, the firm's objective should be in consonance with the wealth maximisation principle. To achieve this, the firm should determine the optimum level of inventory. Efficiently controlled inventories make the firm flexible. Inefficient inventory control results in unbalanced inventory and inflexible- the firm may sometimes out of stock and sometimes may pile up unnecessary stocks. This increases the level of investment and makes the firm unprofitable. To manage inventories efficiently and effectively answers should be sought to the following two questions:

1. How much should be ordered?
2. When should it be ordered?

The first question, how much to order, relates to the problem of determining economic order quantity (EOQ) and is answered with an analysis of costs of maintaining certain level of inventories. The second question, when to order, arises because of uncertainty and is a problem of determining the re-order point.

Economic Order Quantity (EOQ)

One of the major inventory management problems to be resolved is how much inventory should be added when inventory is replenished. If the firm is buying raw materials, it has to decide lots in which it has to be purchased on each replenishment. If the firm is planning a production run, the issue is how much production to schedule (or how much to make). These problems are called order quantity problems, and the task of the firm is to determine the optimum or economic order quantity. Determining an optimum inventory level involves two types of costs: (a) Ordering costs and (b) carrying costs. The economic order quantity is that inventory level which minimises the total of ordering costs and carrying costs.
**Ordering Costs:** The term ordering costs is used in case of raw materials and includes the entire costs of acquiring raw materials. They include costs incurred in the following activities: requisitioning, purchase ordering, transporting, receiving, inspecting and storing. Ordering costs increase in proportion to the number of orders placed. The clerical and staff costs, however, do not have to vary in proportion to the number of order placed, and one view is that so long as they are committed costs they not be reckoned in computing ordering costs. Alternatively, it may be argued that as the number of orders increases, the clerical staff costs tend to increase. If the number of orders are drastically reduced, the clerical staff force released now can be used in other departments. Thus, these costs may be included in the ordering costs. It is more appropriate to include clerical and staff costs on pro-rata basis.

When the firm is considering the production runs, the inventory involved is of finished products, and the relevant costs will be set-up costs. Set-up costs include on the following activities: preparing and processing the stock orders, preparing drawings and specifications, tooling, machines set-up, handling machines, tools, equipment materials, overtime etc.

**Carrying costs:** Costs incurred for maintaining a given level of inventory are called carrying costs. They include storage, insurance, taxes, deterioration and obsolescence. The storage costs comprise cost of storage space, stores handling costs and clerical and staff services costs (administrative costs) incurred in recording and providing special facilities such as fencing, lines, racks etc.

**Ordering & Carrying Costs**

Carrying costs vary with inventory size. This behavior is contrary to that of ordering costs which decline with increase in inventory size. The economic size of inventory would thus depend on trade-off between carrying costs and ordering costs.

**Re-Order Point:** The problem, how much to order, is solved by determining the economic order quantity, yet the answer should be sought to the second problem, when to order. This is a problem of determining the re-order point. The re-order point is that inventory level at which an order should be placed to replenish the inventory. To
determine the re-order point under certainty, we should know: (a) lead time, (b) average usage, and (c) economic order quantity. Lead time is the time normally taken in replenishing inventory after the order has been placed. By certainty we mean that usage and lead time do not fluctuate. Under such situation, re-order point is simply that inventory level which will be maintained for consumption during the lead time. That is:

\[
\text{Re-order point} = \text{Lead time} \times \text{Average usage}
\]

**Safety Stock**

While determining re-order point above we assumed certainty. It is difficult to predict usage and lead time accurately. The demand for material may fluctuate from day to day or from week to week. Similarly, the actual delivery time may be different from the normal lead time. If the actual usage increases or the delivery of the inventory is delayed, the firm can face a problem of stock-out. The stock-out can prove to be costly for the firm. Therefore, in order to guard against the stock-out, the firm may maintain a safety stock-some minimum or buffer inventory as cushion against expected increased usage and/or delay in delivery time. Thus the formula to determine the re-order point when safety stock is maintained is as follows:

\[
\text{Re-order point} = \text{Lead time} \times \text{Average usage} + \text{Safety Stock}
\]

**SELECTIVE INVENTORY CONTROL : ABC ANALYSIS**

Usually a firm has to maintain several types of inventories. It is not desirable to keep same degree of control on all the items. The firm should pay maximum attention to those item whose value is the highest. The firm should, therefore, classify inventories to identify which items should receive the most effort in controlling. The firm should be selective in its approach to control investment in various types of inventories. This analytical approach is called the ABC analysis and tends to measure the significance of each items of inventories in terms of its value. The high value items are called as "A items" and would be under the tightest control. "C items" represent relatively least value and would be under simple control. "B items" fall in between these two categories and require reasonable attention of management. The ABC analysis concentrates on important items and is also known as control by importance and exception (CIE). As the items are
classified in the importance of their relative value, this approach is also known as proportional value analysis (PVA).

The following steps are involved in implementing the ABC analysis:  

1. Classify the items of inventories, determining the expected use in units and the price per unit of each unit of each item.
2. Determining the total value of each item by multiplying the expected units by its unit price.
3. Rank the items in accordance with the total value, giving first rank to the item with highest total value and so on.
4. Compute the ratios (percentage) of number of units of each item to total units of all items and the ratio of total value of each item to total value of all items.
5. Combine items on the basis of their relative value to form three categories- A, B, and C.

FINANCIAL MANAGER'S ROLE IN INVENTORY MANAGEMENT

The techniques of inventory management, discussed above, are very useful in determining the optimum level of inventory and finding answers to the problems of the economic order quantity, the re-order point and the safety stock. These techniques are very essential to economize the use of resources by minimizing the total inventory cost. Although our treatment of inventory management has been simple in this section, but it indicates the broad framework for managing inventories. Many sophisticated techniques have been evolved to handle inventory management problems more efficiently and effectively and the improvements are still continuing. But to use these sophisticated techniques services of highly qualified manager's and staff are required, which is not feasible in most of the small-scale industries.

As stated in the beginning, for many majority of the firms, inventory represents a substantial investment. Thus, the goal of the wealth maximization is related to the efficiency with which inventory is managed. Consequently, the financial manager has an important role to play in the management of inventory, although it is not his operating responsibility to control inventory. The financial manager should see that only an
optimum amount is invested in inventory. He should be familiar with the inventory control techniques and ensure that inventory is managed well. He should introduce the policies which reduce the lead time, regular usage and thus, minimise safety stock. The net effect would be to reduce inventory investment and increase the firm's prospects of making more profits.

WORKING CAPITAL MANAGEMENT IN SMALL-SCALE INDUSTRIES

Finance is the lifeblood of a modern small-scale industry. Capital is required for financing all types of commercial and industrial activities. The capital requirements of an enterprise vary from the point of view of the scale of operations. An industrial enterprise requires long-term as well as short-term capital. Long-term Capital is required for the acquisition of land, building construction, purchase of machinery, tools and equipment, etc.

The small-scale enterprise, like other industrial units, require working capital to meet the cost of raw materials, parts and components, freight, goods in process, finished goods in stock, book debts and bills receivable. In the present context, the need for working capital is more complicated due to the influence of trade cycles, cut-throat competition in the market, costly machines and changing industrial policies of the Govt.

Working capital management is an integral part of overall corporate management. To a financial manager, a working capital sphere throws a welcome challenge and opportunity. In view of the multiplicity of factors exerting varied degrees of influence of working capital studies, a management has to be alert to the internal, external and environmental developments and constantly plan and review its working needs and strategy.

Working capital management has been looked upon as the driving seat of a financial manger. Moves and actions in the operating fields of production, procurement, marketing and services are ultimately interpreted and viewed in financial terms; hence the pre-occupation with the financial implications of the management of working capital and his segments. In this connection, Louis Brandt observes: “We need to know when to look for working capital funds, how to use them and how to measure, plan and control them.”
As discussed above working capital management is a very important function of management. Here before discussing the working capital management in small-scale industries in Haryana. We would like to make it clear that only those business units which are planning the requirements of working capital well in advance and those who are planning the management of working capital at least one month in advance are included in the category of properly planning working capital units and the rest in non-planning category.

Table 4.1

WORKING CAPITAL PLANNING IN SMALL-SCALE INDUSTRIES IN HARYANA

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>1. Garments</td>
<td>51</td>
<td>63.7</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>33</td>
<td>82.5</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>36</td>
<td>60.0</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>31</td>
<td>39.7</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>30</td>
<td>53.6</td>
</tr>
<tr>
<td>6. Others</td>
<td>48</td>
<td>55.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>229</td>
<td>57.3</td>
</tr>
</tbody>
</table>

Now with the help of Table 4.1, which shows the status of various industries in small-scale sector regarding working capital management and on the basis of the response given to the question "Do you properly plan working capital management?" We can say that 57.3 per cent units are planning working capital well in advance. In this category mostly well to do units are there. In Auto-parts industry due to more competition and their moderate size maximum 82.5 per cent are properly planning working capital requirement and its arrangement well in advance followed by Garments industry 63.7 per cent, Electronics industry 60 per cent, Others industry 55.8 per cent, Rubber & Plastics industry 53.6 per cent and in Metal Products industry least 39.7 per cent.

In Garments industry which units are engaged in readymade garments business due to high value of raw-material used, pay more attention on working capital management in comparison to the units working on labour rate basis, where requirement
of working capital is less. So, in this 63.7 per cent industries of Garments, maximum industries are those which make their own garments. On the other hand in Metal-products industry the attention on working capital is paid least in comparison to the other industries due to their small size and most of them work after getting some advance from customer. That is the main reason of not properly planning in advance working capital needs by majority of units in the industry.

In the small firms on an average 42.7 per cent think about the arrangement of working capital only when the need arises. In this category mainly 'smaller units' say that their requirements are not much and we can easily manage when need arise. Other units in this category are having some sort of limits with banks which can easily fulfill their needs. So, they do not make planning. Rest are those units which are financially sound and do not take into account the importance of proper planning.

In Metal Products industry maximum 60.3 per cent are not properly planning the working capital followed by Rubbers & Plastics industry 46.4 per cent, Others industry 44.2 per cent, Electronics industry 40 per cent, Garments industry 36.3 per cent and least one is Auto-parts industry with 17.5 per cent.

In Metal Products industry mostly smaller units need less working capital. Hence, they do not properly plan the working capital. In Auto-parts industry the reason of non-plan working capital is same, but, their number in the industry is less which makes them least percentage (17.5 per cent) in the category of not properly planning.

**SOURCES OF WORKING CAPITAL FINANCING IN SMALL-SCALE INDUSTRIES**

The need of working capital is increased by raising prices of end-products and relative inputs. On the other hand, the Government and monetary authorities play their own role to curb the malice in periods of inflation. The control measures often take the form of dear money policy and restrictive credit. Financing of additional working capital requirements in such an environment becomes a real problem to a finance manager of a concerned unit.
Commercial banks play the most significant role in providing working capital finance, particularly in the Indian context. In view of the mounting inflation, the Reserve Bank of India has taken up certain fiscal measures to check the money supply in the economy. The balancing need has to be managed either by long-term borrowings or by issuing equity or by earning sufficient profits and retaining the same for coping with the additional working capital requirements.

Table 4.2

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Commercial Banks</th>
<th>Loan from Financial Institution</th>
<th>Internal &amp; Other Sources</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>1. Garments</td>
<td>75</td>
<td>93.7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>30</td>
<td>75.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>50</td>
<td>83.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>60</td>
<td>76.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>50</td>
<td>89.3</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6. Others</td>
<td>74</td>
<td>86.1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>339</strong></td>
<td><strong>84.7</strong></td>
<td><strong>-</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>

Note: (1) May be using more than one source, but we have considered main source.
(2) Trade credit and accruals are not included.

In small-scale industries 84.7 per cent units depends on commercial banks for their working capital requirements. Because financial institutions mainly provide financial assistance for long-term and intermediate loans after getting some securities. Other sources of financing the working capital are also not accessible to small-scale industries. In such a situation if they cannot raise funds own their own, the only source left is commercial banks. Commercial banks are providing working capital through various modes. Out of them overdraft facility or limit facility is commonly used by small businesses. As Table 4.2 shows that in Garments industry 93.7 per cent followed by Rubber & Plastics industry 89.3 per cent, Others industry 86.1 per cent, Electronics industry 83.3 per cent, Metal Products industry 76.9 per cent, and Auto-parts industry 75 per cent, are getting their working capital mainly from commercial banks.
On the other hand, smaller units having less requirements or financially sound units are arranging funds own their own or with the help of other sources like friends or relatives or getting advance from customers. In this category, the maximum percentage of such units is in Auto-parts industry 25 per cent followed by Metal Products industry 23.1 per cent, Electronics industry 16.7 per cent, Others industry 13.9 per cent, Rubber & Plastics 10.7 per cent and least in Garments industry 6.3 per cent.

In the Auto-parts industry, due to prompt payment system of Automobile industry and bigger size of units, dependence on commercial banks is least. In Garments industry, particularly those who work on the basis of labour rate do not depend on banks for less amount of working capital required. In metal products industry, trend of advance payments make them less depend on banks. But small-scale industries mainly depend on commercial banks for their working capital requirements.

**CASH MANAGEMENT IN SMALL-SCALE INDUSTRIES**

Management of cash flows is one of the most important functions of the management of small firms. While it is difficult to prove statistically, it is believed that the failure to manage cash flows effectively is a primary reason for the extremely high casualty rate among small and middle-sized firms. Small businesses have the same motives for holding cash as large firms; these are transaction, precautionary, and speculative. The latter motive is of less importance; therefore management should concentrate on the transaction and precautionary reasons for holding cash. The degree of randomness of the firm's cash flows determines the level of precautionary balances, and it is in this area of cash management that owner-managers of small companies should concentrate their efforts. The management should make policies that will synchronize inflows with outflows.

(a) **Cash Budgeting in Small-Scale Industries**

The control of cash is absolutely essential if a firm wishes to optimize its efficiency. While cash budget serves as both a planning tool and a control device, it should be emphasized that the budget only tells when something is wrong. To correct
problems as they arise requires a complete replanning process rather than simply finding a solution to each symptom.

In addition to the control of cash balances, management is charged with the initiation of activities that will ensure the firm that cash will flow into the firm at the earliest time. Tools that have been developed and are available to the managers of small firms are (1) the lock box system and (2) concentration banking. Both methods tend to reduce the lapse between the time when customer makes payment and the time when the funds are available for use by the firm.

One use of these funds is to meet the outflow requirements of the firm. Another is to invest the excess funds in profitable investments. As a general rule small firms do not have large cash balances for investment; therefore they don't always invest in same types of securities. However, any investment they make should meet the following criteria: safety, marketability, and yield.

Table 4.3
CASH BUDGETING IN SMALL-SCALE INDUSTRIES IN HARYANA

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Yes No.</th>
<th>%</th>
<th>No.</th>
<th>%</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Garments</td>
<td>32</td>
<td>40.0</td>
<td>48</td>
<td>60.0</td>
<td>80</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>26</td>
<td>65.0</td>
<td>14</td>
<td>35.0</td>
<td>40</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>23</td>
<td>38.3</td>
<td>37</td>
<td>61.7</td>
<td>60</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>18</td>
<td>23.1</td>
<td>60</td>
<td>76.9</td>
<td>78</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>17</td>
<td>30.4</td>
<td>39</td>
<td>69.6</td>
<td>56</td>
</tr>
<tr>
<td>6. Others</td>
<td>37</td>
<td>43.0</td>
<td>49</td>
<td>57.0</td>
<td>86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>153</strong></td>
<td><strong>38.2</strong></td>
<td><strong>247</strong></td>
<td><strong>61.8</strong></td>
<td><strong>400</strong></td>
</tr>
</tbody>
</table>

As discussed above cash budget is an important tool of efficient cash management. But as shown in Table 4.3 only 38.2 per cent small-scale industries are using this tool. Out of these 38.2 per cent, except bigger units, others are just preparing cash budget to estimate the cash requirements and receipts. Most of them prepare cash budget for a month or even for a week. They are not using it as a control device. Only in the bigger units this device is properly used. Now, we see that only in Auto-parts
industry, because most of them are big units, 65 per cent are preparing cash budget. In Others industry 43 per cent followed by in Garments industry 40 per cent, in Electronics industry 38 per cent in Rubber & Plastics industry 30.4 per cent, and in Metal products industry just 23.1 per cent are using this technique for efficient cash management.

On the other hand majority of small-scale industries (61.8 per cent) are not preparing cash budget in written form. Maximum number of such units is in Metal Products industry with 76.9 per cent followed by Rubber & Plastics industry 69.6 per cent, Electronics industry 61.7 per cent, Garments industry 60 per cent, Others industry 57 per cent, and in Auto Parts industry 35 per cent. The main reason is smaller size of these units.

In small-scale industries no separate department is set-up for cash management exclusively. Cash matters are looked after mainly by the owner(s) himself/themselves. Bigger units are the exception where in cashier is appointed though only for receipts and payments purposes. The cash books and safe, on the other hand, is checked by owner(s) regularly on daily or weekly basis. All the decisions regarding the minimum amount of cash to be kept or investment decisions are also taken by the owner(s) alone.

(b) Cash Discount Facility in Small-Scale Industries

Table 4.4

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Yes</th>
<th>%</th>
<th>No</th>
<th>%</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Garments</td>
<td>16</td>
<td>20.0</td>
<td>64</td>
<td>80.0</td>
<td>80</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>4</td>
<td>10.0</td>
<td>36</td>
<td>90.0</td>
<td>40</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>14</td>
<td>23.3</td>
<td>46</td>
<td>76.7</td>
<td>60</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>12</td>
<td>15.4</td>
<td>66</td>
<td>84.6</td>
<td>78</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>10</td>
<td>17.9</td>
<td>46</td>
<td>82.1</td>
<td>56</td>
</tr>
<tr>
<td>6. Others</td>
<td>17</td>
<td>19.8</td>
<td>69</td>
<td>80.2</td>
<td>86</td>
</tr>
</tbody>
</table>

| Total                 | 73  | 18.3| 327  | 81.7| 400       |
Various techniques of cash management can be used to control the cash inflows and outflows. These important techniques are (1) Speedy cash collections; (2) Slowing disbursement; (3) accruals etc. In small-scale industries method adopted for speedy cash collection is the prompt billing. Billing is done without delay and even with the goods dispatched. The other way of prompt payment by customers, is the practice of offering cash discounts, which is not very common practice in small-scale industries. Table 4.4 shows that only 18.3 per cent industries are using this technique for speedy cash collections. In this category the maximum percentage is in Electronics industry, 23.3 per cent followed by Garments industry 20 per cent, Others industry 19.8 per cent, Rubber & Plastics 17.9 per cent, Metal Products industry 15.4 per cent and Auto-parts industry 10 per cent. The main reason for this small percentage in Auto-parts industry is the short average credit period in comparison to other industries. Other techniques of controlling cash inflows and outflows such as slowing disbursement is used by 65 per cent industries and accruals, which means current liabilities that represents a service or goods received by a firm but not yet paid for, is used by all industries. But there are limitations of this technique, such as taxes to be paid to Govt. cannot be delayed after a limit.

RECEIVABLES MANAGEMENT IN SMALL-SCALE INDUSTRIES

(a) Cash Discount facility in Small-Scale Industries

Firms generally offer cash discounts to induce customers to make prompt payments. The percentage discount and the period during which it is available are reflected in the credit terms. But this practice is not very common in small-scale industries as shown by Table 4.4 (discussed earlier) only 18.3 per cent industries are offering cash discounts to their customers to make prompt payments. In Electronics industry maximum 23.3 per cent units are offering cash discounts for prompt payments. The main reason is that in Electronics industry the average credit period is lengthy in comparison to the industries in other fields. So, to realize cash early they are adopting cash discounts practice. The next number is of Garments industry closely followed by Others industry where 20 per cent and 19.8 per cent units respectively are providing facility of early payments to their customers. In Auto-parts industry just 10 per cent units are offering cash discounts because rest 90 per cent are receiving their payments as per schedule easily and the schedule is not very lengthy too. In
the Rubber & Plastics and Metal Products industries the percentages of units providing cash discounts are 17.9 and 15.4 respectively. In the Metal Products industry 66.7 per cent are providing credit for less than 30 days. Owing to intense competition in the Metal Products industry the rates are already very competitive and the owners do not find themselves in a position to provide more discount in any form.

(b) Period of Credit in Small-Scale Industries

The credit period refers to the length of time customers are allowed to pay for their purchases. Lengthening of the credit period pushes sales up by inducting existing customers to purchase more and attracting additional customers. In today's business world every industry is bound to sell its products on credit due to competition. But the period of credit depends on various factors such as competition, trend or custom of the industry, market condition and financial position, etc.

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>1 to 30 days</th>
<th>31-60 days</th>
<th>61-90 days</th>
<th>91-120 days</th>
<th>More than 120 days</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>1. Garments</td>
<td>18</td>
<td>22.5</td>
<td>37</td>
<td>46.3</td>
<td>19</td>
<td>23.7</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>20</td>
<td>50.0</td>
<td>12</td>
<td>30.0</td>
<td>5</td>
<td>12.5</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>18</td>
<td>30.0</td>
<td>28</td>
<td>46.6</td>
<td>10</td>
<td>16.7</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>52</td>
<td>66.7</td>
<td>14</td>
<td>17.9</td>
<td>8</td>
<td>10.3</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>22</td>
<td>39.3</td>
<td>26</td>
<td>46.4</td>
<td>4</td>
<td>7.1</td>
</tr>
<tr>
<td>6. Others</td>
<td>17</td>
<td>19.8</td>
<td>33</td>
<td>38.4</td>
<td>28</td>
<td>32.5</td>
</tr>
<tr>
<td>Total</td>
<td>147</td>
<td>36.7</td>
<td>150</td>
<td>37.5</td>
<td>74</td>
<td>18.5</td>
</tr>
</tbody>
</table>

In the small-scale industries credit period varies according the value of the product. Table 4.5 presents the average credit period for which sale is made by various industries in small-scale sector. It is clear from the table that 37.5 per cent of industries are granting credit for an average period of 31 to 60 days which is highest. closely followed by 36.7 per cent industries selling goods for an average credit period upto 30 days. Out of remaining industries 18.5 per cent industries are granting credit for 61 to 90 days and 7.3 per cent industries for 91 to 120 days. No industry is granting credit for more than 120 days in
small-scale sector. Now, if we analyse it industry wise we will see that Metal Products industry has the highest percentage of 66.7 in the category of industries which grant credit period upto 30 days. There are mostly smaller units selling their products directly to the customers. In case of Rubber & Plastics industry 39.3 per cent, Electronics industry 30 per cent, and Others industry 19.8 per cent units, which are also selling on credit for a period of upto 30 days, are mainly smaller unit which can't afford credit for a longer period. In the Garments industry 22.5 per cent are those units which work on labour rate and provide credit upto 30 days. In the Auto Parts industry 50 per cent are those units which supply their parts in the market on credit for less than 31 days.

There are 37.5 per cent industries which are providing credit for 31 to 60 days. In this category the leading one is Electronics industry with 46.6 per cent closely followed by Rubber & Plastics industry 46.4 per cent & Garments industry 46.3 per cent. Most of these units are of moderate size or bigger units. In Auto-Parts industry mainly 30 per cent are those units which supply most of their products to Automobile industries. In Metal-Products industry 17.9 per cent are those units which supply their products in the market and not directly to the customers. Same is the case in Others industry constituting 38.4 per cent.

On the other hand in the category of granting credit for 61 to 90 days or 91 to 120 days there are mainly big industries which can afford credit for a longer period. The customers of these industries are those who purchase in bulk and the value of their product is much higher than the products of other industries in the same sector. For example in the Electronics industry 16.7 per cent units are those who are assembling computers or televisions. 7.5 per cent units in the Garments industry providing credit for 91-120 days are those which are involved in exporting their products. In the Others industry 32.5 per cent units such as shoe or leather industry are granting credit for 61 to 90 days and 9.3 per cent for 91 to 120 days due to more competition in the market or export.

(c) Credit Evaluation in Small-Scale Industries

Before granting credit to a prospective customer the firm must evaluate the credit worthiness of the customer. There are several ways in which a firm can find out whether a customer is likely to pay its debts on time or not.
<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>By seeing annual accounts and financial statements</th>
<th>By referring to the bankers for information</th>
<th>By referring to the fellow firms which already transitioning</th>
<th>Any other method</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>1. Garments</td>
<td>10</td>
<td>12.5</td>
<td>62</td>
<td>77.5</td>
<td>8</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>4</td>
<td>10.0</td>
<td>36</td>
<td>90.0</td>
<td>–</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>5</td>
<td>8.3</td>
<td>46</td>
<td>76.7</td>
<td>9</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>2</td>
<td>2.6</td>
<td>52</td>
<td>66.7</td>
<td>24</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>4</td>
<td>7.1</td>
<td>40</td>
<td>71.4</td>
<td>12</td>
</tr>
<tr>
<td>6. Others</td>
<td>10</td>
<td>16.6</td>
<td>70</td>
<td>81.4</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>35</td>
<td>8.8</td>
<td>306</td>
<td>76.5</td>
<td>59</td>
</tr>
</tbody>
</table>

In Table 4.6 on the basis of various ways of measuring credit worthiness of a prospective customer small-scale industries are divided into various categories according to the method used. According to this categorization 76.5 per cent industries are measuring credit worthiness of a customer by referring the fellow firms already dealing with the customer. In this category highest percentage (90 per cent) belongs to Auto-parts industry followed by Others industry 81.4 per cent, Garments industry 77.5 per cent, Electronics industry 76.7 per cent, Rubber & Plastics industry 71.4 per cent and Metal Products industry 66.7 per cent.

In the next category of industries which adopt any other methods for measuring credit worthiness of a prospective customer, 14.7 per cent industries are using it. The maximum percentage 30.7 per cent of Metal Products industry are using this method. They mostly assess the financial soundness of customer. In the Rubber & Plastics industry which has the next higher percentage of 21.5 per cent industry in this category use trial and error method for granting credit to a new customer. In the Electronics industry 15 per cent are using this method by taking guarantee from other person. In Garments industry (10 per cent) provide credit on the basis of reputation in the market and so on. And in Others industry 7 per cent units are using other methods.

The other method referring to the bankers for information is not very popular and just 8.8 per cent industries are using it, Because, the assessments provided by the banks.
are often couched in very general terms and are not very useful. That is why only 12.5 per cent units in Garments industry, 11.6 per cent in Others industry, 10 per cent in Auto-parts industry, 8.3 per cent in Electronics industry, 7.1 per cent in Rubber & Plastics industry, and just 2.6 per cent in Metal Products industry are using this method for measuring credit worthiness of a prospective customer.

(d) Factors Influence Credit Policy in Small-Scale Industries

There may be various factors which influence the credit policy of a firm. But out of these two most important factors which influence the credit policy in small-scale industries are competition and customs & traditions in the industry.

Table 4.7

**CONSIDERATION IN THE FORMULATION OF CREDIT POLICY BY SMALL-SCALE INDUSTRIES IN HARYANA**

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Competition</th>
<th>Customs &amp; Traditions in Industry</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
</tr>
<tr>
<td>1. Garments</td>
<td>32</td>
<td>40.0</td>
<td>48</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>17</td>
<td>42.5</td>
<td>23</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>35</td>
<td>58.3</td>
<td>25</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>48</td>
<td>61.5</td>
<td>30</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>35</td>
<td>62.5</td>
<td>21</td>
</tr>
<tr>
<td>6. Others</td>
<td>44</td>
<td>51.2</td>
<td>42</td>
</tr>
</tbody>
</table>

| Total            | 211 | 52.7   | 189 | 47.3   | 400     |

This can be supported by the Table 4.7 reflecting the impact on credit policy of small-scale industries in percentages of these two factors. Competition is main factor of credit policy. Because, in the small sector 52.7 per cent industries are deciding the terms and conditions of their credit sales according to the terms & conditions of other competitors. The table shows that in Rubber & Plastics industry 62.5 per cent followed by Metal Products industry 61.5 per cent, Electronics industry 58.3 per cent, Others industry 51.2 per cent, Auto-parts industry 42.5 per cent, and Garments industry 40 per cent are framing their credit policies by keeping in mind the competition in the industry.
On the other hand the other factor customs & traditions is also not least important in deciding the credit terms. Table 4.7 shows that 47.3 per cent industries are making credit policies in accordance with the customs and traditions of the industry. This is mostly followed in Garments Industry by 60 per cent units. The next one is Auto-parts industry with 57.5 per cent where most of the sale is on credit and terms are decided according to the customs in the industry. In Others industry 48.8 per cent, Electronics industry 41.7 per cent, Metal Products industry 38.5 per cent, and Rubber & Plastics industry 37.5 per cent are also deciding the terms of credit sales according to the traditions of the industry.

INVENTORY MANAGEMENT IN SMALL-SCALE INDUSTRIES

(a) Inventory Control Techniques

The financial managers should aim at an optimum level of inventory on the basis of the trade-off between cost and benefit, to maximize the owner's wealth. Many mathematical techniques are available to handle inventory management problems. But in small-scale industries the use of these techniques is not possible. We have discussed here some simple production oriented methods of inventory control to indicate a broad framework for managing inventories efficiently in conformity with the goal of wealth-maximization adopted by small-scale industries.

(i) ABC Analysis: The classification problem to determine the type of control required. The first step in the inventory control process is classification of different types of inventories to determine the type and degree of control required for each. The ABC system is widely-used classification technique to identify various items of inventory for purposes of inventory control. In small-scale industries only 2 per cent industries in the sample units are using this technique. More than 96 per cent of industries are even not having a separate department for controlling stores. Only 20 per cent have appointed a separate person to look after the inventories.
### Table 4.8

**INVENTORY CONTROL TECHNIQUES USED BY SMALL-SCALE INDUSTRIES IN HARYANA**

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Minimum Level</th>
<th>Maximum Level</th>
<th>Re-order Level</th>
<th>E.O.Q. Level</th>
<th>No Technique</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.  %</td>
<td>No.  %</td>
<td>No.  %</td>
<td>No.  %</td>
<td>No.  %</td>
<td>No.  %</td>
</tr>
<tr>
<td>1. Garments</td>
<td>13  16.3</td>
<td>8  10.0</td>
<td>9  11.2</td>
<td>6  7.5</td>
<td>44  55.0</td>
<td>80</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>22  55.0</td>
<td>6  15.0</td>
<td>6  2.5</td>
<td>2  5.0</td>
<td>4  10.0</td>
<td>40</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>28  46.7</td>
<td>12  20.0</td>
<td>2  3.3</td>
<td>4  6.7</td>
<td>14  23.3</td>
<td>60</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>15  19.2</td>
<td>8  10.3</td>
<td>-  -</td>
<td>3  3.8</td>
<td>52  66.6</td>
<td>78</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>35  62.5</td>
<td>6  10.7</td>
<td>-  -</td>
<td>7  12.5</td>
<td>8  14.3</td>
<td>56</td>
</tr>
<tr>
<td>6. Others</td>
<td>46  53.5</td>
<td>16  18.6</td>
<td>-  -</td>
<td>18  20.9</td>
<td>6  7.0</td>
<td>86</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>159  39.7</strong></td>
<td><strong>56  14</strong></td>
<td><strong>17  4.3</strong></td>
<td><strong>40  10</strong></td>
<td><strong>128  32</strong></td>
<td><strong>400</strong></td>
</tr>
</tbody>
</table>

(ii) **E.O.Q.** The determination of the appropriate quantity to be purchased in each lot to replenish stock as a solution to the order quantity problem necessitates resolution of conflicting goals. The economic order quantity may be defined as the level of inventory order that minimises the total cost associated with inventory management. Table 4.8 shows that due to the problem of finance, storage and requirement in small-scale industries only 10 per cent are using Economic Order Quantity technique. In most of the small firms raw materials are purchased according to immediate need without keeping in mind the E.O.Q. In Metal Products industry just 3.8 per cent units are using this technique due to shortage of funds and storage problem. In Others industry maximum 20.9 per cent of units are using this technique as in some cases the nature of raw material is such which is not available in quantity as required or locally not available. So, use of E.O.Q. becomes necessary particularly in chemical industries. On the other hand in Garments industry only 7.5 per cent are using this technique. And in rest of units raw material is purchased in single lot for an order at one time otherwise products would be different one. E.O.Q. is not considered. In the Auto-parts industry 5 per cent, in Electronics industry 6.7 per cent, and in Rubber & Plastics 12.5 per cent units are using this technique.

(iii) **Other Techniques:** Table 4.8 shows that in small-scale industries 39.7 per cent are using the minimum level technique to avoid the stoppage of production due to non
availability of material. In this technique a minimum level of material is fixed by keeping in mind the various factors such as lead time and constant daily usage of inventory. Except in Garments industry and Metal Products industry where just 16.3 per cent and 19.3 per cent units respectively are using this technique, in remaining industries this technique is very popular and 46.7 to 62.5 per cent units are using it. The reason of Garments industry is already explained in E.O.Q. technique discussion and in Metal Products industry there are very small units which due to storage problem and as well as financial constraints are not using this technique.

Maximum level technique determine the limit of stock. It is also not very popular in small-scale industries due to unstability in demand of the products. Only 14 per cent industries are using this technique. Maximum percentage of such units is in Electronics industry 20 per cent followed by Others industry 18.6 per cent, Auto-parts industry 15 per cent, Rubber & Plastics 10.7 per cent, Metal Products 10.3 per cent, and Garments industry 10 per cent. These industries are fixing the maximum level of stock to be kept at a time.

Re-order level technique is used just by 4.3 per cent industries. In Garments 11.2 per cent, in Electronics 3.3 per cent and in Auto-parts 2.5 per cent units are using re-order level technique to control inventory.

(iv) No Technique: In the category 'no technique' is used for inventory management, there are 32 per cent industries in small sector. Maximum number is in Metal Products industry 66.6 per cent followed by Garments industry 55 per cent, Electronics industry 23.3 per cent, Rubber & Plastics industry 14.3 per cent, Auto-parts industry 10 per cent and Others industry 7 per cent. Except in Garments industry where the large units due to the nature of their product as explained earlier, in other industries mainly small units are using no techniques for inventory control.
(b) Purchase Procedure in Small-Scale Industries

Table 4.9
PURCHASE PROCEDURE FOLLOWED BY SMALL-SCALE INDUSTRIES IN HARYANA

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>By Inviting Tenders</th>
<th>By Inviting Quotations</th>
<th>By personal visit/ telephonically</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>1. Garments</td>
<td>8</td>
<td>10.0</td>
<td>72</td>
<td>90.0</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>6</td>
<td>15.0</td>
<td>34</td>
<td>85.0</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>10</td>
<td>16.7</td>
<td>47</td>
<td>78.3</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>12</td>
<td>15.4</td>
<td>62</td>
<td>79.5</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>10</td>
<td>14.3</td>
<td>46</td>
<td>82.1</td>
</tr>
<tr>
<td>6. Others</td>
<td>20</td>
<td>23.2</td>
<td>60</td>
<td>69.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>64</td>
<td>16</td>
<td>321</td>
<td>80.2</td>
</tr>
</tbody>
</table>

In small-sector the procedure for purchasing raw-material is different from the large-scale units. As Table 4.9 shows in more than 80 per cent industries owners purchase raw-material by visiting personally or by conversation on telephone. This is due to the nature of small-scale industries where all transactions are look after by the owner himself/herself. Purchasing raw-material is a very important function in which huge amount of finance is involved. So, the owner himself make purchases by personal visit. This method is adopted by 90 per cent units in Garments industry, followed by Auto-parts industry 85 per cent, Rubber & Plastics industry 82.1 per cent, Metal Products industry 79.5 per cent, Electronics industry 78.3 per cent and in Others industry by 69.8 per cent. In extreme big units of small sector where the quantity to be purchased is large, other methods such as by inviting quotations or inviting tenders are used for purchasing raw material. But their percentage is just 16 per cent and 3.8 per cent respectively. Tenders method is adopted maximum by Others industry (7 per cent). In Garments & Auto-parts industry no one is using this method as shown by Table4.9. In remaining industries 3 to 5 per cent are using it. By inviting quotations for purchases is comparatively more popular in larger units of small-sector, Table shows that in Others industry 23.2 per cent, followed by Electronics industry 16.7 per cent, Metal Products industry 15.4 per cent, Auto-parts
industry 15 per cent, Rubber & Plastics industry 14.3 per cent and Garments industry 10 per cent are using this method.

(c) Store Organization in Small-Scale Industries

The bin cards and store ledgers are the two main records which are kept to make record of the various items of the stores. But in most of the small scale industries no proper records are maintained for determining the cost of the product. So the store ledger method is not adopted by small industries as in large industries. In small industries record of material is maintained according to their convenience which we have included in other methods category.

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>Bin System</th>
<th>Any other method</th>
<th>No system</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>1. Garments</td>
<td>28</td>
<td>35.0</td>
<td>42</td>
<td>52.5</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>30</td>
<td>75.0</td>
<td>8</td>
<td>20.0</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>16</td>
<td>26.6</td>
<td>34</td>
<td>56.7</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>8</td>
<td>10.3</td>
<td>38</td>
<td>48.7</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>12</td>
<td>21.4</td>
<td>20</td>
<td>35.7</td>
</tr>
<tr>
<td>6. Others</td>
<td>19</td>
<td>22.1</td>
<td>32</td>
<td>37.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>113</td>
<td>33.3</td>
<td>174</td>
<td>43.5</td>
</tr>
</tbody>
</table>

As Table 4.10 shows in small-scale industries 33.3 per cent are using bin system for store organization. For keeping raw material under this system requires separate racks for different type of raw material and to each bin a card is attached to show the systematic record of raw material received and issued. That is why only bigger units are maintaining this system in small sector. Due to big size of units, Auto-parts industry is using this system maximum with 75 per cent units. In Garments industry 35 per cent followed by Electronics industry 26.6 per cent, Others industry 22.1 per cent, Rubber & Plastics industry 21.4 per cent, and least in Metal Products industry 10.3 per cent units, are using it. Other reason of using this system may be the type of raw material. For example in
Electronics industry, which units are engaged in T.V. or computers assembling, it becomes necessity to use this system.

Majority of industries, 43.5 per cent are using other systems of keeping inventory. In this category except Auto-parts industry where 20 per cent are using other systems in remaining industries the percentage ranges from 35.7 to 56.7 per cent.

Rest 28.2 per cent units of smaller size units are using no system at all for store organisation. In Garments industry (12.5 per cent) units which are mainly engaged in tailoring work do not recognize the value of inventory. Hence, use no system for store organisation. In Auto-parts industry (5%) smallest units are not using any system for store organisation. In remaining industries the percentage ranges from 40.7 to 42.9 per cent. So, we can say that mainly size of the unit and nature of raw material use is deciding factor.

(d) Pricing of Raw Materials in Small-scale Industries

Table 4.11

METHODS OF VALUATION OF MATERIALS ISSUED ADOPTED BY SMALL-SCALE INDUSTRIES IN HARYANA

<table>
<thead>
<tr>
<th>Name of Industry</th>
<th>FIFO No.</th>
<th>FIFO %</th>
<th>LIFO No.</th>
<th>LIFO %</th>
<th>Average Price No.</th>
<th>Average Price %</th>
<th>Others No.</th>
<th>Others %</th>
<th>Total No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Garments</td>
<td>12</td>
<td>15.0</td>
<td>–</td>
<td>–</td>
<td>64</td>
<td>80.0</td>
<td>4</td>
<td>5.0</td>
<td>80</td>
</tr>
<tr>
<td>2. Auto-parts</td>
<td>24</td>
<td>60.0</td>
<td>–</td>
<td>–</td>
<td>14</td>
<td>35.0</td>
<td>2</td>
<td>5.0</td>
<td>40</td>
</tr>
<tr>
<td>3. Electronics</td>
<td>22</td>
<td>36.7</td>
<td>–</td>
<td>–</td>
<td>25</td>
<td>41.7</td>
<td>13</td>
<td>21.6</td>
<td>60</td>
</tr>
<tr>
<td>4. Metal Products</td>
<td>8</td>
<td>10.3</td>
<td>–</td>
<td>–</td>
<td>65</td>
<td>83.3</td>
<td>5</td>
<td>6.4</td>
<td>78</td>
</tr>
<tr>
<td>5. Rubber &amp; Plastics</td>
<td>12</td>
<td>21.4</td>
<td>–</td>
<td>–</td>
<td>37</td>
<td>66.1</td>
<td>7</td>
<td>12.5</td>
<td>56</td>
</tr>
<tr>
<td>6. Others</td>
<td>20</td>
<td>23.3</td>
<td>–</td>
<td>–</td>
<td>56</td>
<td>65.1</td>
<td>10</td>
<td>11.6</td>
<td>86</td>
</tr>
<tr>
<td>Total</td>
<td>98</td>
<td>24.5</td>
<td>–</td>
<td>–</td>
<td>261</td>
<td>65.2</td>
<td>41</td>
<td>10.3</td>
<td>400</td>
</tr>
</tbody>
</table>

There are several methods used for pricing inventories used in production. But in small-scale industries mainly Average cost method is used. As shown by Table 4.11, 65.2 per cent small-scale industries are using this method for issuing materials. Because in small-scale industries the identity of different lots of materials is lost when they are received in store due to space problem and not using bin card system for maintaining records or store ledger system. In Metal Products industry 83.3. per cent followed by Garments industry 80 per cent, Rubber & Plastics industry 66.1 per cent, Others industry
65.1 per cent, Electronics industry 41.7 per cent, and Auto-parts industry 35 per cent are pricing their materials at the average cost. In Metal Products industry more than 83 per cent units are using average cost method due to the reason that when different consignments are received into the stores and put in the same bin, the identity of each consignment is lost. In such a situation it is logical to put together their unit prices and strike the average.

On the other hand only 24.5 per cent industries are using FIFO method for pricing of materials issued from store. In this category mainly those units are there which are maintaining the proper records of inventory. This method is adopted maximum in Auto-parts industry by 60 per cent units, followed by Electronics industry 36.7 per cent, Others industry 23.3 per cent, Rubber & Plastics industry 21.4 per cent, Garments industry 15 per cent, and Metal Products industry 10.3 per cent. The reason for least number of units in Metal Products industry using first in, first-out method is smaller size of units and these units do not maintain proper records of materials in stock. So, they can't identify the materials which was received first. In Auto-parts industry proper record of materials in store is maintained and materials are easily identified as belonging to a particular purchased lot.

Summing Up

Majority of small-scale industries in Haryana are planning working capital well in advance. Most of the small industries depend on commercial banks for their working capital requirements. The important tool of cash management, that is cash budget, is not used by majority of small industries. Only large units are using cash budget tool for cash management. Even separate cash department is not there in majority of industries. Very few industries are using cash discount technique for speedy collection of cash. In small sector, most of the units are providing credit facility to customers upto 60 days. Before granting credit to a prospective customer, most of the small firms refer to fellow firms already dealing with the customer to measure the credit worthiness. The credit policies of majority of the small industries are influenced by the terms and conditions of other competitors. In small-scale industries inventories represent a very significant portion of the assets. But, the important inventory control technique – ABC analysis and E.O.Q. are
used just by large units and their percentage is very small. Majority of small industries are using other techniques such as minimum level, maximum level and re-order level. And one-third industries in the sector are using no technique for inventory control. In most of the small industries raw-material is purchased by owners by making personal visit to the vendor or by making conversation on telephone. Bin cards system for store organisation is used by only one-third large units in the small sector. For issuing raw-material in small-scale industries average cost method is most popular.
REFERENCES


