

A Study on Formation of Working Capital Sathyabama Institute of Science and Technology Chennai- 600 119

Arun Kumar J S

MBA Final year student School of Management Studies

Sathyabama Institute of Science and Technology Chennai- 600 119

akarunvijay06@gmail.com

ABSTRACT:

Working capital is essential for smooth day-to-day business operations. It helps maintain liquidity, profitability, and financial stability. This study focuses on working capital formation practices followed by finance-related companies in Ranipet surrounding areas. Primary data was collected from 103 respondents through a structured questionnaire using Google Forms. Percentage analysis and Chi-square test were used for analysis. The study found that most respondents consider working capital highly important for business operations. The Chi-square test shows significant preference for combined methods such as cash management, inventory control, and faster collection of receivables. The study concludes that proper planning and monitoring improve working capital efficiency and long-term growth.

KEYWORDS: Working Capital, Liquidity, Finance, Chi-square Test, Percentage Analysis,

INTRODUCTION:

Working capital refers to the difference between current assets and current liabilities. It is required for meeting short-term obligations such as salary payments, purchase of materials, operating expenses, and repayment of liabilities. Proper formation of working capital ensures smooth business functioning. Efficient management of working capital improves profitability and reduces financial risk. It also helps maintain adequate liquidity for daily operations. Proper working capital management supports business growth and stability. It enables organizations to meet unexpected financial needs without disruption.

REVIEW OF LITERATURE:

Maria Zain (2018) stated that Return on Assets (ROA) measures how efficiently a company uses its assets to generate profit. A higher ROA shows better asset utilization and effective resource management.

R. Ramachandiran (2019) explained that financial performance analysis helps in identifying strengths and weaknesses by analyzing the relationship between balance sheet and profit and loss items.

G. Gowsalya (2017) stated that financial analysis helps in understanding the firm's position and performance in a better way.

Anish Ali (2020) explained that horizontal and vertical analysis helps in understanding the growth and performance trends of a company over time.

Gowthami (2019) stated that financial analysis is important to evaluate the operating and financial efficiency of a business.

Setyo Riyanto and Yasinta Asiani (2020) explained that financial ratio analysis is one of the best tools to assess company performance and financial position.

B. Kishore (2018) highlighted the importance of financial planning and management for long-term growth of companies.

OBJECTIVES OF THE STUDY

Primary Objective:

- To study the formation of working capital practices followed by companies in Ranipet surrounding areas.

Secondary Objectives:

- To identify sources of working capital.
- To analyze the importance of working capital.
- To study methods used to improve working capital efficiency.
- To examine the role of financial planning.

RESEARCH METHODOLOGY:

Research Design: Descriptive Research

Area of Study: Ranipet surrounding companies

Sample Size: 103 respondents

Sampling Method: Convenience Sampling Source

of Data: Primary Data

Tool Used for Analysis: Percentage Analysis and Chi-square Test

DATA ANALYSIS AND FINDINGS**Percentage Analysis**

A structured questionnaire was administered to 103 respondents. The key findings from the percentage analysis are summarized below:

Survey Statement	Dominant Response	Percentage
Organization maintains separate WC management system	Yes	91.3%
Importance of working capital for daily operations	Important	52.0%
Working capital helps in which activity	All of the above	73.8%
WC management improves company performance	Agree	55.3%
WC planning done regularly	Yes	73.8%
Major source of working capital	Other Sources	55.4%
Company uses short-term borrowing for WC	Yes	77.2%
Supplier credits used as WC source	Yes	63.1%
Efficiency rating of WC management	Good	47.6%

Efficient WC management improves profitability	Strongly Agree	45.6%
Technology helps improve WC management	Yes	90.2%
Better planning can improve financial stability	Yes	87.4%

Table 1: Summary of Primary Survey Results (n = 103)

1. A statistical technique for assessing whether observed and expected frequencies in research data differ significantly is the Chi-square test.

Method	Observed Values (O):
All of the above	62
Efficient Cash Management	13
Better Inventory Control	14
Faster Collection of Receivables	14
Total	103

Method	O	E	(O - E)	(O - E) ²	(O - E) ² / E
All of the above	62	25.75	36.25	1314.06	51.03
Efficient Cash Management	13	25.75	-12.75	162.56	6.31
Better Inventory Control	14	25.75	-11.75	138.06	5.36
Faster Collection	14	25.75	-11.75	138.06	5.36
Total χ^2					68.06

Expected Value (E): $E = 103 / 4 = 25.75$

Chi-Square Formula: $\chi^2 = \sum (O - E)^2 / E$

Result: Calculated $\chi^2 = 68.06$ Table value (5%) = 7.815 Since

calculated value > table value, H₀ is rejected.

Hypothesis:

Ho: There is no significant difference in respondents' preference among working capital improvement methods.

H1: There is a significant difference in respondents' preference among working capital improvement methods.

The majority of respondents chose "All of the above," and the results are not evenly divided, highlighting the significance of using a variety of techniques in working capital management. All of the above is strongly preferred by respondents, suggesting that several approaches work well.

2. To determine whether respondents' views on liquidity ratios are evenly distributed or exhibit a substantial preference, the Chi-square test is employed.

Method	Observed Values (O):
All of the above	67
Current Ratio	18
Quick Ratio	9
Cash Ratio	8
Total	102

Method	O	E	(O-E)	(O-E) ²	(O-E) ² / E
All of the above	67	25.5	41.5	1722.3	67.56
Current Ratio	18	25.5	-7.5	56.25	2.21
Quick Ratio	9	25.5	-16.5	272.25	10.68
Cash Ratio	8	25.5	-17.5	306.25	12.01
Total χ^2					92.46

Expected Value (E): $E = 102 / 4 = 25.5$

Chi-Square Formula: $\chi^2 = \sum (O - E)^2 / E$

Result: Calculated $\chi^2 = 92.46$, Table value (5%) = 7.815

Since the calculated value > table value, H0 is rejected.

Hypothesis:

H0: There is no significant difference in respondents' preference among liquidity ratios.

H1: There is a significant difference in respondents' preference among liquidity ratios.

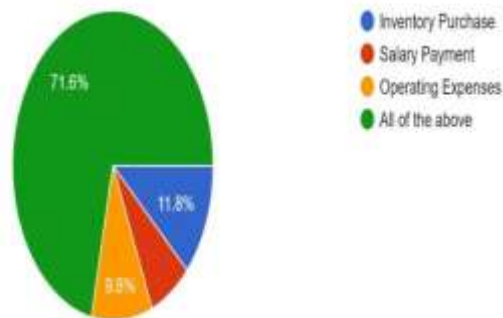
The majority of respondents prefer all ratios, and responses are not evenly divided. It is determined that a variety of financial techniques and ratios are necessary for efficient working capital management.

1. Working capital is mainly used for which purpose?

Table No: 1

PARTICULARS	NO. OF PARTICIPANTS	Percentage (%)
All of the above	68	71.6%
Inventory Purchase	15	11.8%
Operating Expenses	12	9.8%
Salary Payment	8	7%
Total	103	100%

Working capital is mainly used for which purpose?
102 responses



INTERPRETATION:

According to the above table, the majority of respondents (71.6%) chose All of the above, with the remaining selections being split between salary payment, operating expenses, and inventory purchasing.

INFERENCE:

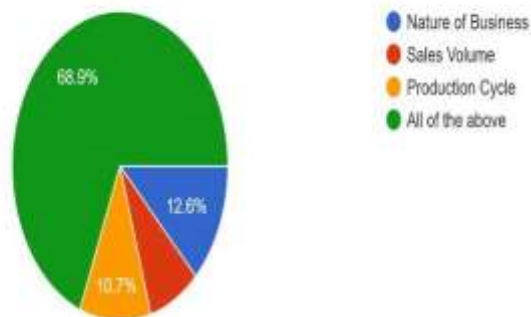
This shows that working capital is utilised for a variety of commercial purposes, underscoring its widespread significance in company operations.

2. Which factor mainly affects working capital requirement?

Table No: 2

PARTICULARS	NO. OF PARTICIPANTS	Percentage (%)
All of the above	69	68.9%
Nature of Business	13	12.62%
Production Cycle	11	10.7%
Sales Volume	10	7%
Total	103	100%

Which factor mainly affects working capital requirement?
103 responses



INTERPRETATION:

The majority of respondents (68.9%) chose All of the above from the preceding table the remaining choices were split between nature of business, production cycle, and sales volume.

INFERENCE:

This shows that multiple factors influence the responses, with most participants considering all factors important.

FINDINGS:

91.3% respondents maintain a separate working capital management system.

52.0% respondents considered working capital important for daily operations.

73.8% respondents said working capital supports all business activities.

55.3% respondents agreed working capital management improves performance. 73.8% respondents confirmed regular working capital planning.

55.4% respondents stated other sources are major working capital sources. 77.2% respondents reported use of short-term borrowings.

63.1% respondents stated supplier credit is used. 47.6% respondents rated efficiency as good.

45.6% respondents strongly agreed it improves profitability. 90.2% respondents believed technology improves management. 87.4%

respondents agreed better planning improves stability.

Chi-square test confirmed preference for combined methods and all liquidity ratios.

RECOMMENDATIONS:

- Organizations should prepare proper working capital budgets and regularly review cash flow requirements.
- Efficient cash management practices should be adopted to avoid shortage of funds.

- Inventory levels should be monitored regularly to reduce excess stock and shortage risk.
- Faster collection of receivables should be encouraged through effective credit control policies.
- Companies should make proper use of supplier credit as a low-cost source of working capital.
- Short-term borrowings should be utilized carefully with proper repayment planning.
- Financial ratios such as Current Ratio, Quick Ratio, and Cash Ratio should be regularly analyzed.
- Technology-based accounting and finance systems should be implemented for better control and reporting.
- Periodic training should be given to finance staff regarding working capital management techniques.
- Continuous financial planning and monitoring should be followed to improve profitability and liquidity.

CONCLUSION:

The study concludes that formation of working capital is an essential financial activity for every organization. Adequate working capital ensures smooth day-to-day operations, timely payment of liabilities, and improved profitability. The findings reveal that most organizations maintain separate working capital systems and recognize the importance of effective planning. Percentage analysis indicates positive respondent opinion regarding technology, profitability improvement, and financial stability through efficient working capital management. The Chi-square results confirm that respondents strongly prefer a combination of techniques such as cash management, inventory control, receivables collection, and liquidity ratio analysis for better financial performance. Therefore, proper planning, efficient utilization of resources, and continuous monitoring are necessary for maintaining a healthy working capital position and achieving long-term business growth.

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