

# Study on Awareness of Working Capital and Profitability amongst Banking and Finance Students at Postgraduate Level in Mumbai

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**Abstract:** *This research study was conducted to understand the awareness of working capital in business amongst Banking and Finance Students at Postgraduate Level in Mumbai as it provides a great opportunity to understand the awareness levels of the student community. The data was collected and analysed from 80 students studying at post graduate level in commerce and management with specialisation in banking and finance from Mumbai region. To measure the understanding level about what is working capital and its components the chi-square analysis was performed on the primary data collected. The suggestions and recommendation given by the researcher at the end based on the analysis of this research will help in many ways to improve the knowledge about working capital amongst student community and also to improve the teaching learning methods.*

**Keywords:** working capital, profitability, current assets, liquidity

## I. INTRODUCTION

“Capital is that part of wealth which is devoted to obtaining further wealth.”- Alfred Marshall

Working capital is a financial metric that measures a company's short-term liquidity and efficiency. It is calculated by subtracting a company's current liabilities from its current assets. Positive working capital indicates that a company has sufficient resources to meet its short-term obligations, while negative working capital may signal financial distress and the need for additional financing.

Changes in inventory levels, trade receivables, and payables are just a few variables that might have an effect on a company's working capital. For instance, if a stock-levels rise, its current assets will rise as well, possibly improving working capital.

working capital is a critical financial metric that measures a company's short-term liquidity and efficiency. Effective management of working capital can help a company meet its financial obligations, invest in growth opportunities, and improve its financial position. (Gitman, 2021).

Inventory management, Accounts receivable management and account payables management are crucial components of working capital management. Companies can shorten the time it takes for the customers to pay their bills by implementing efficient credit and collections processes, freeing up cash that may be utilised to fulfil short-term debts and commitments (Gitman, 2021).

### Statement of the Problem

Working capital is critical to every business's day-to-day operation. However, it is also a tricky component in the balance sheet structure, with a bigger proportion resulting in resource concentration and performance inefficiencies. In contrast, limitations to working capital can have a negative influence on operations due to a lack of resources. To achieve the highest efficiency level of working capital, the first step should be to raise awareness. This study examines the awareness level of postgraduate students.

### **Objectives of Study**

The awareness on working capital involves in-depth study of its components, uses, features of each of the components and also the overall impact on the business. This study focuses on the awareness level of postgraduate level student who are specialising in the field of finance. The following objectives are expected to be analysed as a part of this research.

- To analyse the awareness about net working capital among postgraduate students.
- To understand the level of awareness difference between current assets and fixed assets.
- To assess the awareness on types of working capital.

### **Significance of Study**

The study obtains its significance as working capital is one of the important topics which a finance student is taught as a part of curriculum. Management of working capital is also the essence for a successful business. As a postgraduate student, it is important to have sufficient knowledge to understand working capital which is an essential and integral to any business firm.

### **Limitations of Study**

The study has limitations due to the scope and extent of research conducted having low sample size, geographical area limitation and the scope being limited to understanding awareness on the topic of working capital. Further, the awareness may be limited by the curriculum and knowledge base of the candidates surveyed as a part of this study. The results may differ on larger sample as well as with respect to population from different geographical area. The study does not incorporate the effects of knowledge level, intelligence of the respondents and also the academic level for the purpose of this study.

## **II. REVIEW OF LITERATURE**

The literature being humongous in volume, an effort has been made to incorporate quite a few in this research paper. Inventory, accounts receivable, and accounts payable being examples of current assets and liabilities with a higher degree of liquidity that make up working capital. Good management enables businesses to have the resources needed to conduct business operations and lessens the need for bank financing, which lowers financial costs. This research study evaluates the significance of effective working capital management in Ecuador's prepared food and beverage sector. To do this, it proposes a regression model that allows for the analysis of the relationships between the independent variables cash conversion cycle, days inventory outstanding, days receivable outstanding, and days inventory outstanding. Performance index and efficiency index are additional characteristics that are taken into consideration as controls. (Ramos Requena & Vinueza-Guzman, 2022).

In light of recent literature indicating persistence in short-run fluctuations in firms' working capital allocations was evaluated. To determine whether firms typically adopt firm-specific value-maximizing optimal allocations, it specifically examines the magnitude and rate of mean reversion in working capital allocations. Additionally, it evaluates whether and how much firms sacrifice working capital to account for capital expenditure shocks. (Chauhan, 2021)

In Kenya there has been an increase in recent years in the number of businesses that have failed. The vast efforts to save these failing and insolvent companies have typically been attributed on their corporate finance management choices. The financial performance of multinationals and tea companies in Kenya has declined recently, as evidenced by audited financial records and reports. Determines the impact of the accounts receivables period, accounts payables period, inventory conversion period, cash conversion cycle, financing policy, investing policy, and ownership structure's moderating effect on financial performance were the study's specific goals. (Yegon et al., 2021)

In another instance, the connection between working capital management and corporate profitability was studied. For the years 2001 to 2004, a sample of 131 companies listed on the Athens Stock Exchange (ASE). This study aims to establish a statistically significant relationship between profitability, the cash conversion cycle, and its components for

ASE-listed companies. The findings of our study demonstrated a statistically significant relationship between profitability as determined by gross operating profit and the cash conversion cycle. Additionally, managers can increase profitability for their organisations by managing the cash conversion cycle appropriately and maintaining the ideal level of each component (accounts receivable, accounts payable, and inventory). (Lazaridis & Tryfonidis, 2012).

Because of the tightening of the local and global financial markets, as well as the public's reluctance to invest in shares of companies after the collapse of the capital market, liquidity management has become a major source of concern for business managers, particularly in the wake of the global financial crisis. Utilizing information from certain industrial companies listed on the Nigerian Stock Exchange's trading floor, this research study examines the relationship between liquidity management and company profitability. Descriptive analysis was used to acquire the study's findings, which demonstrate that liquidity management was measured in terms of the organisations' credit policies, cash flow management, and cash conversion cycle. Maintaining working capital's liquidity in daily operations is essential for ensuring that it runs smoothly and fulfils its obligations. (Eljelly, 2004).

A commercial firm's ability to operate successfully depends on its level of liquidity. A company should make sure that it does not experience a lack of or an excess of liquidity to pay its immediate obligations. Because of its intimate connection to a business's daily operations, a study of liquidity is extremely important to both internal and external analysis. (Baser et al., 2017)

### **III. RESEARCH METHODOLOGY**

#### **Nature and Source of data collection:**

The data was collected from the following sources:

a. Primary Data: The sample data was collected through questionnaire circulated using Google form from students having commerce background and specialization in banking and finance at Postgraduate Level in colleges in Mumbai area.

Sample Size: Total of 80 samples were collected and used for analysis purposes.

b. Secondary Data: Secondary data was collected from various sources like books, journal articles, websites, annual reports of listed companies etc.

#### **Research Hypotheses**

Research Hypothesis-1

- $H_0$ : Postgraduate students are not aware about net working capital
- $H_1$ : Postgraduate students are aware about net working capital

Research Hypothesis-2

- $H_0$ : Postgraduate students are not aware about inclusion of the machinery in factory as a part of Working capital
- $H_1$ : Postgraduate students are aware about inclusion of the machinery in factory as a part of Working capital

Research Hypothesis-3

- $H_0$ : Postgraduate students are not aware about Gross Working Capital
- $H_1$ : Postgraduate students are aware about Gross Working Capital

### **IV. DATA ANALYSIS**

A questionnaire was circulated using Google form for the purpose of collection of data, the data collected was analysed using Chi-square test considering the hypothesis framed keeping the objective of study as the basis for understanding the level of awareness observed among the banking and finance students from commerce background at Postgraduate Level in colleges in Mumbai area.

Research Hypothesis-1

$H_0$ : Postgraduate students are not aware about net working capital

$H_1$ : Postgraduate students are aware about net working capital

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Table 1: Awareness about net working capital

Gender		Which of the following would be Net Working Capital?					Total
		(Inventories + Debtors) minus (Creditors + Unpaid expenses)	Cash + Debtors	Current Assets - Inventories	Current Liabilities + Cash		
Female	Observed	30	0	10	0	40	
	%	75.0 %	0.0 %	25.0 %	0.0 %	100.0 %	
Male	Observed	32	2	0	6	40	
	%	80.0 %	5.0 %	0.0 %	15.0 %	100.0 %	
Total	Observed	62	2	10	6	80	
	%	77.5 %	2.5 %	12.5 %	7.5 %	100.0 %	

Source: Prepared by the researchers from primary data

$\chi^2$  Tests

	Value	df	p
$\chi^2$	9.03	3	0.029
N	80		

In the above table, the p value is less than 0.05, therefore the null hypothesis i.e. Postgraduate students are not aware about net working capital, is rejected. From the respondents, the awareness level was observed to be good with respect to the net working capital which is one of the basic concepts of working capital studies.

Research Hypothesis-2

H<sub>0</sub>: Postgraduate students are not aware about inclusion of the machinery in factory as a part of Working capital

H<sub>1</sub>: Postgraduate students are aware about inclusion of the machinery in factory as a part of Working capital

Table 2: Awareness about components of working capital

Gender		Can you include the machinery in factory as a part of Working capital?		
		No	Yes	Total
Female	Observed	34	6	40
	%	85.0 %	15.0 %	100.0 %
Male	Observed	18	22	40
	%	45.0 %	55.0 %	100.0 %
Total	Observed	52	28	80
	%	65.0 %	35.0 %	100.0 %

Source: Prepared by the researchers from primary data

$\chi^2$ Tests			
	Value	df	p
$\chi^2$	7.03	1	0.008
N	80		

In the above table, the p value is less than 0.05, therefore the null hypothesis i.e. Postgraduate students are not aware about inclusion of the machinery in factory as a part of Working capital, is rejected. From the respondents, the understanding about the difference between fixed asset and current asset was good. The differentiation is important aspect of analysing financial statements.

Research Hypothesis-3

H<sub>0</sub>: Postgraduate students are not aware about Gross Working Capital

H<sub>1</sub>: Postgraduate students are aware about Gross Working Capital

Table 3: Understanding Gross Working Capital

		What is your understanding of Gross Working Capital						
Gender		Current Liabilities	Assets	- Current	Current only	Assets	None of these	Total
Female	Observed	6			32		2	40
	%	15.0 %			80.0 %		5.0 %	100.0 %
Male	Observed	10			30		0	40
	%	25.0 %			75.0 %		0.0 %	100.0 %
Total	Observed	16			62		2	80
	%	20.0 %			77.5 %		2.5 %	100.0 %

Source: Prepared by the researchers from primary data

$\chi^2$ Tests			
	Value	df	P
$\chi^2$	1.53	2	0.465
N	80		

In the above table, the p value is greater than 0.05, therefore the null hypothesis i.e. Postgraduate students are not aware about Gross Working Capital, is accepted. It means that the awareness of deeper concepts of working capital in business among postgraduate students is not present. The general awareness about the concept of working capital is present as observed in the first hypothesis, however, a type of working capital i.e. Gross working capital is not present

## V. FINDINGS

The following can be summarised as the findings of the study:

The awareness level among the sample selected was observed to be good with respect to the net working capital which is one of the basic concepts of working capital studies. The understanding about the difference between fixed asset and current asset was good. The differentiation is important aspect of analysing financial statements. The awareness of deeper concepts of working capital in business among postgraduate students is not present. The general awareness about the concept of working capital is present as observed in the first hypothesis, however, a type of working capital i.e. Gross working capital which is current assets is not present.

### Suggestions and Recommendation

- This study after observing the awareness level of students has come up with the following suggestions and recommendations:
- Students need a strong understanding of working capital concepts.
- Teaching methods should involve theoretical understanding of working capital.
- Teaching pedagogy should include case studies.
- Integrating on-the-job training into the curriculum can raise student understanding regarding working capital.

## VI. CONCLUSION

The above research to understand the awareness of working capital in business throws up a great opportunity to understand the awareness levels of the student community. The above data analysis shows that the awareness about what is working capital, difference between current assets and fixed assets are fairly good among the student community studied as apart of this research. However, the understanding about types of working capital viz. gross working capital is not clear with the students. This could be due to the lack of practical exposure available for students with respect to the functioning, use cases and in-depth study on working capital. This however, provides the information for further studies in the area of working capital. Worldwide, business owners and managers are concerned with coming up with a plan for running their day-to-day operations in a way that would enable them to pay their debts when they become due, boost profitability, and grow shareholder wealth. Since most of the indices used to measure corporate liquidity are a function of the components of working capital, liquidity management is typically seen from the perspective of working capital management. It is impossible to overemphasise the significance of liquidity management as it relates to corporate profitability in today's business.

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