Working capital of videocon analysis

Government, Capitalism

It is said that the shorter the operating cycle, the better. But in the above case it can be seen that the operating cycle of Videocon is increasing over the years from 90. 98 days in the year 2007 to 99. 92 in the year 2008 to 118. 39 days in the year 2009. INVENTORY MANAGEMENT PRACTICES Annual Report 2009 of Videocon, Pg. 55, Point No. 11 " Inventories are valued at cost or net realizable value whichever is lower. Cost of inventories comprises all costs of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition.

Cost is determined on Weighted Average Basis. " 3 The company follows the weighted average method of inventory management. Inventory Turnover Ratio Inventory turnover ratio refers to how many times a company are able to convert its inventory into sales and replace it over a period of time. The formula for inventory turnover is as follows: Formula = Cost of Goods Sold Average Inventory Cost of Goods Sold = Opening Stock + Purchases + Direct Expenses - Closing Stock Higher the inventory turnover ratio, better it is. 4

The inventory turnover ratio of Videocon and LG are as follows: It can be observed from the above table, that the inventory turnover ratio of LG is increasing gradually over the years from 6. 14 in the year 2006 to 7. 48 in the year 2007 and finally 8. 67 in the year 2008. This shows that LG has been able to achieve greater sales over the year. On the other hand, Videocon's inventory turnover ratio has declined from 6. 47 in the year 2006 to 5. 63 in the year 2008. Not only has it declined over the years, but is also lesser than that of LG its main competitor.

This indicates that the company has poor sales, in other words the company's sales are declining over the years, and there might be increase in stock. Furthermore, a decline in sales might also indicate that the company is losing its customers to its competitors. This is not at all good for the company. We can observe from the above table that the percentage of bad debts in the year 2007 was 3. 37% which gradually decreased to 3. 1% in the year 2008 and finally to 1. 6% in the year 2009. This is a very good indication for the company since the debtors prove to be good, and there are lesser bad debts, that means lesser losses for the company.

DEBTORS TURNOVER RATIO: " Debtor's turnover ratio / Accounts receivable turnover ratio refers to the velocity of the debt collection of the firm. In simple words it indicates the number of times average debtors (receivable) are turned over during a year. " 5 Formula for debtor's turnover ratio = NET CREDIT SALES AVAERAGE DEBTORS AVAERAGE DEBTORS = OPENING BALANCE OF DEBTORS + CLOSING BALANCE OF DEBTORS 2 Higher the debtors turnover ratio, better it is. A high debtor's turnover ratio indicates that the debtors are more liquid, and there is efficient management of debtors on the part of the company.

On the other hand, a low debtor's turnover ratio indicates lack of management of debtors on part of the company, and that the debtors are not that liquid. There is no ideal debtor's turnover ratio as this varies from company to company and from industry to industry. From the above table we can see that the debtors turnover ratio for videocon is almost half as compared to its rival / comopetitior LG. Therefore, we can conclude that the

receivable management of LG is far more efficient than videocon and the company should pay more attention in this parameter0.