

THE INFLUENCE OF WORKING CAPITAL ON RENTABILITY AT S.C. AGRARIA COM S.R.L. SĂLCIOARA, VASLUI COUNTY

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Abstract

Determining the manner in which the company is financed, the decision-maker must identify the optimum correlation to be made between the working capital, the rotation speed and the company profitability (economic, financial, commercial).

The study aims to answer the following questions:

1. What is the difference between working capital and permanent capital?
2. How can the activity of a firm be influenced by these two economic variables?

The essay "The influence of working capital on rentability at S.C. Agraria Com S.R.L. Sălcișoara, Vaslui County " is based on a case study conducted at SC AGRARIA COM SRL. The economic and financial indicators were analyzed and the correlations between them was made. The indicators examined are: turnover, profit, permanent capital, working capital, rotation speed, economic rentability, financial rentability, commercial rentability.

Key words: financing, working capital, rentability

The need of the essay was based on practical assessments regarding the structure of funding of the company.

For example most managers have the following questions:

"How important is the capital in the company?" and "How does the capital influence the rentability of the company?"

And the answers are the following: We are interested in the current financial structure if: We can pay the debts on time; We can purchase raw materials; We have excess liquidity; We have cash in our account; We have small stocks ; We can pay salaries, the suppliers, taxes, loans and family expenses.

MATERIAL AND METHOD

To analyze the influence of working capital on the company rentability there were used the following methods of research: economic analysis (analysis of company slips), comparison, decomposition and generalization of results, direct observations and statistical analysis.

Based on the data obtained from S.C. AGRARIA COM S.R.L the economic and financial flow indicators were calculated, such as: the turnover, profit, permanent capital, working capital, rotation, economic rentability, rotation speed, financial rentability, commercial rentability.

RESULTS AND DISCUSSIONS

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For example most managers have the following questions:

"How important is the capital in the company?" and "How does the capital influence the rentability of the company?"

And the answers are the following:

We are interested in the current financial structure if:

- We can pay the debts on time;
- We can purchase raw materials;
- We have excess liquidity;
- We have cash in our account;
- We have small stocks ;
- We can pay salaries, the suppliers, taxes, loans and family expenses.

It has been determined that the answers did not refer at all to the management of capital..

As the responses were not as expected, this study attempts to explain the possible relationship between working capital and the overall activity of the company, regarding the overall balance and rentability.

The first step was to clarify the terminology on the structure of the company measured by

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patrimony. As a whole the company has a «**permanent**» part and a «**mobile**» part.

Both sides have a physical and monetary content. The «permanent physical» part is called immobilized asset, and the monetary part is called permanent capital. The «mobile physical» part is called current asset, and the monetary part is called short-term debts.

If these parts are in balance, that means that the business can respond to all the claims listed above. In reality this things do not happen, and the company is in permanent imbalance.

This imbalance, measured monetary forms the working capital.

Basically the working capital is the company's ability to finance the current assets, assuming that the company pays liabilities and then receives an income.

During this dead period between the payment of the liabilities and the return of the cash, the company must survive. In other words it needs a certain monetary amount called working capital in order to settle all expenses in advance.

The literature defines the working capital as a difference between circulating assets and current liabilities. Basically is the ability of the company to pay current liabilities without an excess of liquidity.

The excess liquidity houses the company from risk, but reduces the rentability.

WHY?

Because some of the cash remains unused in the account.

From above, results the the difference between the permanent capital and the working capital:

The capital assets finances the immobilized capital or the long term interest of the business, and the working capital finances the circulating asset or the short term interest.

To identify a specific response between capital and economic indicators, (table 1, table 2) a case study was made at SC AGRARIA COM SRL., from Sălcișoara, Vaslui County.

Company description.

S.C. AGRARIA COM S.R.L. from Sălcișoara, Vaslui County.

was founded on 23.01.2001 with the Unique Registration Code **RO 13696606** and Registered business number **J37/18/23.01.2001**. The company has is headquartered in Sălcișoara village, Banca village, Vaslui county and is represented by Mrs. Gornescu Corina-Viorica as sole shareholder and Mr. Gornescu Iulian as administrator.

Table 1

Income distribution at S.C. AGRARIA COM S.R.L. from Sălcișoara, Vaslui County in 2010

| No. | Culture | Cultivated area - ha | Average production Kg/ha | Production obtained - kg | Price lei/kg | Income lei |
|-----|---------------|----------------------|--------------------------|--------------------------|--------------|------------|
| 1 | Rape | 30 | 1000 | 30000 | 0,9 | 270000 |
| 2 | Wheat | 60 | 2167 | 130020 | 0,34 | 44200 |
| 3 | Spring barley | 10 | 1740 | 17400 | 0,54 | 9396 |
| 4 | Sunflower | 50 | 1204 | 60200 | 1,25 | 75257,5 |
| 5 | Corn | 5 | 1200 | 6000 | 0,5 | 3000 |

Source: Accounting data from 2010 de la S.C. AGRARIA COM S.R.L. from Sălcișoara, Vaslui County – own calculations

Tabelul 2

Analysis of economic structure at S.C. AGRARIA COM S.R.L. from Sălcișoara, Vaslui County in 2010

| ACTIVE | | | PASSIVE | | |
|---------------------|--------|--------|------------------------------|--------|--------|
| Fixed assets (Fa) | 2009 | 2010 | Permanent capital (PA) | 2009 | 2010 |
| -intangible assets | 133 | 0 | - capital | 200 | 200 |
| -tangible assets | 46823 | 41995 | -Reserves | 13663 | 21543 |
| -financial assets | 0 | 0 | -Other funds | 63937 | 72803 |
| Total | 46956 | 41995 | Total | 77800 | 94546 |
| Current assets (Ca) | 2009 | 2010 | Short term obligations (STO) | 2009 | 2010 |
| -Inventories | 185931 | 168046 | - bank liabilities | 57525 | 38883 |
| -Claims | 45933 | 1679 | -commercial debts | 93113 | 77984 |
| -Availability | 3086 | 4471 | -Tax Debts | 5831 | 4778 |
| Total | 234950 | 174196 | Total | 204106 | 121645 |
| | 281906 | 216191 | | 281906 | 216191 |

Source: Accounting data at 31.12.2010 S.C. AGRARIA COM S.R.L- from Sălcișoara, Vaslui County- own calculations

Suscribed capital is 200,00 RON, fully paid up.

Currently **S.C. AGRARIA COM S.R.L.** from Sălcișoara, Vaslui County.

cultivates an area of 163, 28 ha, distibuted as follows:

- 2,3 ha of barley;
- 46,09 ha of rape;
- 61,8 ha of wheat;
- 38,09 ha sunflower;
- 5 ha corn;
- 10 ha pasture.

To determine the importance of working capital, there were analyzed the interdependencies between indicators: turnover, profit, permanent capital, working capital, rotation speed, economic rentability, financial rentability, commercial rentability.

The calculation was made using the following relations:

The working capital can be calculated using two formulas, whose results are identical.

$$CLf = CP - Ai$$

$$CLc = Ac - OTS$$

$$Vr = CA / Ac$$

$$Re = Pr / At * 100$$

$$Rf = Pr / CP * 100$$

$$Rc = Pr / CA * 100$$

Where:

CLf – working capital resulted from ongoing work;

CP – permanent capital;

Ai –current assets;

CLc –working capital resulting from the current activity;

Ac –current assets;

OTS – short term obligations;

Vr –rotation speed;

CA – turnover;

Re –economic rentability;

Rf –financial rentability;

Rc –commercial rentability;

Pr – profit;

At – total assets.

Table 3

Indicators achieved at S.C. AGRARIA COM S.R.L. from Sălcișoara, Vaslui County

| Nr. Crt. | Indicators | Years | |
|----------|---------------------------|--------|--------|
| | | 2009 | 2010 |
| 1 | Turnover(lei) | 198265 | 250489 |
| 2 | Profit (lei) | 7880 | 16141 |
| 3 | Working capital (lei) | 30844 | 52551 |
| 4 | Rotation speed | 0,84 | 1,44 |
| 5 | Economic rentability (%) | 20,35 | 26,20 |
| 6 | Financial rentability (%) | 72,5 | 59,93 |
| 7 | Comercial rentability (%) | 28,93 | 22,62 |

Source: own calculations

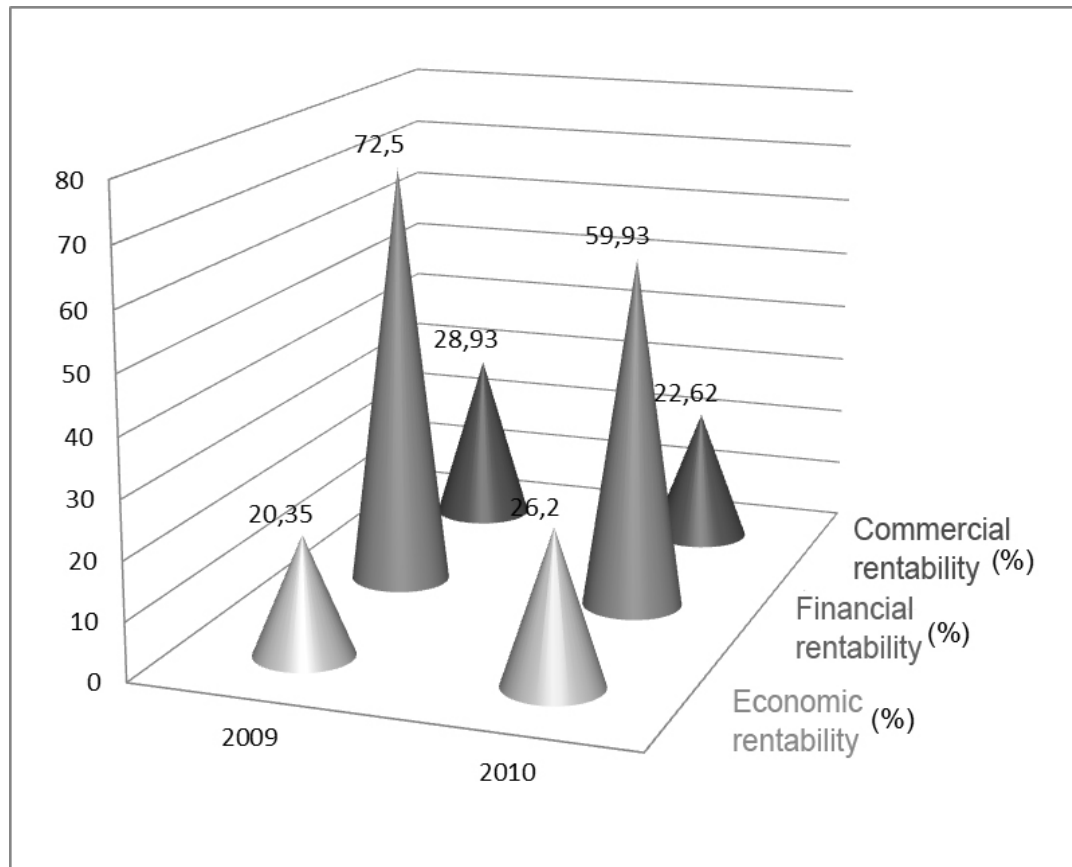


Figure 1 Evolution of rentability at S.C. AGRARIA COM S.R.L. from Sălcișoara, Vaslui County

The company recorded positive values of working capital with positive effects on the rentability. Thus although we have a very low rotation speed of capital, the recorded indicators had good and very good values.

For example, rentability is considered satisfactory if the values are above 10%. In our case all three types of rentability are between 20 and 72%.

The results obtained by S.C. AGRARIA COM S.R.L. from Sălcioara, Vaslui County are generated by the good management of working capital.

CONCLUSIONS

Capital analysis was done at S.C. AGRARIA COM S.R.L. from Sălcioara, Vaslui County, based on the company's slips.

The working capital is the difference between the permanent capital and the immobilized asset or the difference between the fixed asset and short term obligations.

Working capital directly affects the viability of the company, through the compliance, of obligations and the rentability through timely production financing.

The increase of working capital by 70,37% has determined an increase in production volume, mainly the turnover by 26,34%. This thing

positively influenced economic rentability of the company, it grew by 28,74%. It is noted that the financial and commercial rentability of the company falls, this is the consequence of blocked liquidities in production, a phenomenon specific to all agricultural activity.

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