

# Research on Working Capital Management of K Company

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**Abstract:** In the process of enterprise operation, working capital is related to the supply, production and sales of enterprises. Working capital is the capital that an enterprise needs to use in its normal operation. A good turnover of working capital can drive the turnover of fixed capital, which is not only conducive to the improvement of the profit level of enterprises, but also conducive to the goal of maximizing profits. Therefore, the management of working capital is very important for enterprises. With the continuous development of China's socialist market economy and fierce market competition, China's electronic industry stands out. China's electronics industry not only has a huge domestic market, but also China is a global manufacturing power of electronic products. Due to the rise of China's manufacturing industry, the transformation of global electronic industry from vertical structure to horizontal structure, and the increasingly detailed division of value chain, China has become one of the main production bases of global electronic manufacturing, which has also promoted the rapid growth of China's electronic manufacturing industry. Following this, the electronic manufacturing industry is also facing more severe challenges. Because the management of working capital is related to the profit level of enterprises and directly affects the survival and development of enterprises, it is increasingly urgent for the electronic industry to pursue efficient capital management.

**Keywords:** Electronic Industry; Working Capital; Working Capital Management.

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## 1. Introduction

Working capital is the basis of all aspects of enterprise supply, production and marketing, which determines whether the enterprise can develop in the long run and is also the basis for the normal operation of the enterprise. The level of working capital management affects the long-term development of enterprises, and even determines the survival of enterprises. Working capital management is the top priority of enterprises, which can not only expand the performance of enterprises, but also maintain the lifeline of enterprise development. If there are problems in the management of enterprise working capital, it will probably break the enterprise capital chain. This paper discusses the problems and countermeasures of working capital management in K enterprise, hoping to provide reference for this enterprise to carry out working capital management.

## 2. Related Concepts

Working capital, also called working capital. Working capital can be understood as the balance of all current assets MINUS current liabilities in a certain period of time, also known as net working capital.

The management of working capital can be used to weigh the company or enterprise Short-term solvency The larger the amount, the more adequate the preparation for the payment obligation on behalf of the company or enterprise, and the better the short-term solvency. When the working capital of an enterprise is insufficient, that is, the current assets are insufficient to deduct the current liabilities, the normal operation of this enterprise will have problems. Therefore, to what extent can an enterprise have enough working capital to repay its debts, which is an important part of enterprise decision-making [1]. The meaning of working capital management is the management of current assets and current liabilities and their relationship, including the management of

monetary funds, accounts receivable and inventory in current assets projects; Management of accounts payable, short-term loans and other accounts payable in current liabilities [2].

## 3. Second, The Current Situation of K Enterprise Working Capital

K enterprise was established in 2009 with a registered capital of 59.85 million yuan. It is a joint-stock management enterprise integrating the design and manufacture of connectors, wires and cables, cable components and electronic products. The existing production plant covers an area of 100,000 square meters and employs more than 3,000 people nationwide. Its product business spans the fields of security monitoring, communication network, medical electronics, rail transit, industrial automation and personal consumer electronics. Molecular companies, factories and offices have been established in Shenzhen, Zhoukou, Henan, Hangzhou and Tianjin.

By the end of 2021, the enterprise had 31,921,500 yuan of monetary funds, 9,951,300 yuan of accounts receivable and 27,526,400 yuan of accounts payable. For K enterprise, after the electronic product parts are produced, the enterprise should sell them to the outside world. Because of the fierce competition in the electronic market, in order to retain customers, the enterprise will allow customers to buy on credit when some customers buy the company's products, which will lead to accounts receivable. On the other hand, enterprises also hope to occupy the funds of sales enterprises as much as possible, and use these funds in more appropriate links to ensure more efficient turnover of enterprise funds, so that enterprises produce accounts payable. In addition, through the investigation, it is also found that enterprises have a large number of other receivables on their books, and the accounts receivable have reached 21.8342 million yuan in 2021. It is speculated that this may be due to the fact that the major shareholders or management personnel of the

enterprise borrowed funds and did not return them. In the management of working capital, enterprises may have a lot of idle funds in some accounts. The reason for this may be that enterprises need to meet the deposit requirements of financial institutions in order to make loans to financial institutions. On the other hand, when handling business, enterprises may turn a blind eye to financial institutions with lower interest rates, but instead tend to choose financial institutions with better relations with their own enterprises but higher interest rates to handle business, which will increase the financing cost of enterprises.

### 3.1. K the Scale of Enterprise Working Capital

Analyzing the scale of enterprise working capital means analyzing the scale of enterprise current assets and current liabilities. For enterprises, under the condition that the current liabilities of enterprises remain stable, if the current assets of enterprises account for a relatively high proportion, the net working capital of enterprises will be higher, and the ability of enterprises to repay due debts will become stronger [3]. Therefore, enterprises can measure the rationality of their structure according to the proportion of current liabilities and weigh the risks and profits it brings.

**Table 1.** K Amount and proportion of current assets of enterprises (value in 2019, 2020 and 2021, unit: 10,000 yuan)

| age  | 2019    | 2020    | 2021    |
|--|---------|---------|---------|
| Amount of current assets of enterprises          | 5361.32 | 6374.28 | 7853.46 |
| Proportion of current assets of enterprises      | 60.02%  | 60.98%  | 61.14%  |
| Amount of current liabilities of enterprises     | 4582.16 | 5237.91 | 6484.16 |
| Proportion of current liabilities of enterprises | 50.56%  | 50.73%  | 53.28%  |

Source: annual report of K enterprise.

As can be seen from Table 1, the amount of current assets and current liabilities of enterprises has increased year by year from 2019 to 2021, and the proportion of current assets has gradually stabilized, averaging about 60.71% in the past three years. Through the analysis of the amount and proportion of current assets of enterprises from 2019 to 2021, it can be seen that the realization rate of assets of enterprises is relatively high and the ability to repay debts when due is strong. However, its current assets account for a high proportion. In order to improve profitability, enterprises should reduce the scale of current assets. The current liabilities of enterprises account for 53.28% of the total assets in 2021, so it can be seen that the current liabilities account for the largest

proportion of funds raised by enterprises.

### 3.2. K Composition of Working Capital of Enterprises

Current assets are the basic guarantee for the normal operation of enterprises. The composition of current assets is also very important for enterprises. According to the operation process of the enterprise, the working capital of the enterprise is mainly composed of inventory, monetary funds, accounts receivable, other receivables and other items. Through analysis, the composition of enterprise liquidity is shown in Table 2.

**Table 2.** K The amount of enterprise liquidity and its proportion to total assets (2019,2020,2021 value, unit: 10,000 yuan)

| age   | 2019    | 2020    | 2021    |
|---|---------|---------|---------|
| Amount of monetary funds                          | 1077.75 | 2366.63 | 3192.15 |
| Amount of accounts receivable                     | 862.48  | 1080.16 | 995.13  |
| Inventory amount                                  | 771.76  | 652.81  | 519.94  |
| Proportion of monetary funds to total assets      | 10.25%  | 15.23%  | 21.84%  |
| Proportion of accounts receivable to total assets | 6.85%   | 11.18%  | 11.35%  |
| Proportion of inventory to total assets           | 4.78%   | 5.21%   | 5.12%   |

Source: annual report of K enterprise.

As can be seen from Table 2, the amount of monetary funds of enterprises is increasing year by year from 2019 to 2021, and the amount of monetary funds is in direct proportion to the payment ability of enterprises. In 2021, enterprises noticed that the number of accounts receivable was relatively large and controlled it. In the projects that constitute the working capital of enterprises, the amount of monetary funds, accounts receivable and inventory of enterprises account for a relatively high proportion in the whole capital composition, which will make the turnover rate of working capital too slow, which is not conducive to the development of enterprises and

will also damage their profitability.

### 3.3. Analysis of Accounts Receivable and Inventory Turnover in K Enterprise

In order to reflect the accounts receivable and inventory turnover of K enterprise's working capital management research, Table 3 compares the average level of the same industry, and it can be clearly seen from the table that the accounts receivable and inventory turnover of enterprises in recent three years are lower than those of the same industry.

**Table 3.** K Enterprise Accounts Receivable and Inventory Turnover (Value in 2019, 2020 and 2021)

| age   | 2019  | 2020  | 2021  | average value |
|---|-------|-------|-------|---------------|
| Turnover period of enterprise accounts receivable   | 65.28 | 62.31 | 54.49 | 60.69         |
| Turnover period of enterprises in the same industry | 24.67 | 20.74 | 16.54 | 20.65         |
| Enterprise accounts receivable turnover rate        | 6.42  | 6.45  | 7.14  | 8.88          |
| Turnover rate of enterprises in the same industry   | 12.99 | 14.52 | 16.85 | 14.79         |
| Enterprise inventory turnover period                | 24.45 | 25.24 | 27.68 | 25.79         |
| Turnover period of enterprises in the same industry | 13.51 | 15.28 | 17.03 | 15.27         |
| Enterprise inventory turnover rate                  | 8.92  | 7.95  | 6.87  | 7.91          |
| Turnover rate of enterprises in the same industry   | 15.22 | 13.56 | 12.17 | 13.65         |

Source: annual report of K enterprise.

Table 3 shows that the turnover rate of enterprises in the same industry in the control group far exceeds that of the enterprise, which shows that the turnover rate of enterprises in accounts receivable is a bit slow, unlike enterprises in the industry, which shows that enterprises have great shortcomings in accounts receivable management to some extent. At the same time, the turnover period of this enterprise is almost three times that of the same industry enterprises in

the control group. It can be seen that the turnover time of accounts receivable of enterprises is a little long, and the capital turnover of enterprises has been greatly affected to some extent, which will bring disadvantages to the normal business activities of enterprises.

### 3.4. Analysis of Current Liabilities of K Enterprise

**Table 4.** K Project Amount of Current Liabilities of Enterprises (value in 2019, 2020 and 2021, unit: 10,000 yuan)

| age                       | 2019    | 2020    | 2021    |
|---------------------------|---------|---------|---------|
| short loan                | 2310.62 | 2703.63 | 2843.71 |
| accounts payable          | 1587.13 | 1633.84 | 2752.64 |
| deposit received          | 234.48  | 288.98  | 364.79  |
| accounts payable-others   | 32.37   | 77.63   | 53.68   |
| other                     | 417.56  | 533.83  | 469.34  |
| Total current liabilities | 4582.16 | 5237.91 | 6484.16 |

Source: annual report of K enterprise.

It can be seen from Table 4 that the short-term loans of enterprises in recent three years account for 50.43% of current liabilities on average. In the current liabilities of enterprises, the short-term loans of enterprises have gradually increased in the past three years, reflecting that the monetary funds of current assets of enterprises were once tense and could not be turned around in a short period of time. On the other hand, the accounts payable of enterprises are also increasing year by year from 2017 to 2019.

The current ratio of an enterprise is equal to the ratio of current assets to current liabilities, and the current ratio is positively related to the short-term solvency of the enterprise. Quick ratio is the ratio of net value of current assets minus inventory to current liabilities. Through the current ratio and quick ratio of enterprises, the current liabilities of enterprises can be analyzed more clearly.

**Table 5.** K Enterprise's Current Ratio and Quick Ratio (Value in 2019, 2020 and 2021)

| age                       | 2019 | 2020 | 2021 |
|---------------------------|------|------|------|
| Enterprise turnover ratio | 1.04 | 1.14 | 1.26 |
| Enterprise quick ratio    | 0.83 | 1.04 | 1.17 |

Source: annual report of K enterprise.

From Table 5, it can be seen that the turnover ratio of

enterprises in 2019 -2021 is about 1.0-1.2. Although there is some gap from 2.0, fortunately, the turnover ratio of enterprises has been rising steadily in these three years. As can be seen from the above table, the quick ratio of enterprises in these three years is about equal to 1, and it is also in a stable rising state. Through the analysis of the current ratio and quick ratio of enterprises, we can see that the overall level of enterprises is still relatively stable, but we still need to further improve the company's ability to repay debts.

### 3.5. K Enterprise Working Capital Operation

Net working capital can be regarded as a source of capital for enterprise's investment in non-current assets and for paying off non-current liabilities, so the solvency and financial risk of enterprises can be studied through the scale of net working capital [4].

**Table 6.** K Net Working Capital of Enterprises (Value in 2019, 2020 and 2021, unit: 10,000 yuan)

| age                                   | 2019   | 2020    | 2021   |
|---------------------------------------|--------|---------|--------|
| Net working capital of the enterprise | 779.26 | 1136.37 | 1369.3 |

Source: annual report of K enterprise.

From Table 6, it can be seen that the net working capital of the enterprise has been increasing from 2019 to 2021, and the

growth rate is relatively stable. From the net working capital of Quéven Science and Technology, it can be seen that the enterprise has been operating well in the past three years and is likely to keep it. In addition, the steady growth of the net working capital of the enterprise also shows that the enterprise has good short-term solvency.

## **4. Third. Problems in the Working Capital of K Enterprise**

### **4.1. K Enterprise Technology Working Capital Management Level is not High.**

The way enterprises manage cash is chaotic. Cash is widely acceptable. As an important asset of an enterprise, its main characteristics are strong liquidity and poor profitability. The cash flow situation and cash management ability of small and medium-sized enterprises are fundamentally related to the survival and development of an enterprise. If enterprise leaders do not pay attention to it, enterprises will have imperfect internal financial management institutions, shortage of relevant financial personnel, and untimely preparation of cash budget tables. These problems will greatly affect the operation of enterprises.

### **4.2. K Enterprise Average Collection Period is too Long.**

Poor management of enterprise accounts receivable leads to too long turnover days. The average turnover rate of accounts receivable of enterprise K is 8.88 times, while the average turnover rate of accounts receivable of enterprises in the same industry in the control group is 14.79 times. The turnover rate of enterprises in the same industry in the control group far exceeds that of this enterprise, which shows that the turnover rate of accounts receivable of enterprises is a bit slow, unlike that of enterprises in the industry, which shows that enterprises have great shortcomings in accounts receivable management to some extent. Poor management of accounts receivable will put enterprises at risk. If the amount of accounts receivable of enterprises is too large, occupying a large amount of funds, which cannot be recovered at maturity, it will affect whether enterprises can repay their debts on time and affect the reputation of enterprises. Enterprises can't get discounts from suppliers, which will increase transaction capital. At the same time, the excessive amount of accounts receivable will also produce bad debts, which will damage the operating conditions of enterprises.

### **4.3. K Enterprise Inventory Backlog**

The high inventory ratio of enterprises is due to the fact that enterprises have not made a reasonable procurement plan and the efficiency of procurement personnel is not high, which will not only lead to the purchase volume being higher than the actual demand, but also affect the procurement cost, and then affect the profits of enterprises. In the long run, on the one hand, it will affect the normal capital flow of enterprises, on the other hand, it will lead to the economic decline of enterprises, which needs to be paid enough attention by enterprises, so enterprises should increase the management of inventory to a certain extent.

### **4.4. K Enterprise Debt Structure is Unreasonable.**

Short-term loans of enterprises in recent three years

account for 50.43% of current liabilities on average. In the current liabilities of enterprises, the short-term loans of enterprises have gradually increased in the past three years, reflecting that the monetary funds of current assets of enterprises were once tense and could not be turned around in a short period of time. There are certain risks in the debt structure of enterprises. In the project amount table of current liabilities of enterprises, it can be seen that the short-term loans of enterprises account for a large amount, reaching half of the total current liabilities, while from the balance sheet, it is known that the long-term loans of enterprises are too low, and there is a big difference between current assets and current liabilities, which leads to an unsatisfactory debt structure. The unbalanced composition of the overall liabilities of the enterprise also leads to the potential financial risks faced by the enterprise, which may lead to the phenomenon of insolvency [5].

## **5. Fourth, K Enterprise Working Capital Management Optimization Countermeasures**

### **5.1. Improve the Management Level of Enterprise Working Capital**

At present, various enterprises in China are still developing steadily under the new challenges. Enterprises should not only attach importance to the internal system and establish a scientific and healthy working capital management psychology, but also pay attention to improving the level and efficiency of other working capital management and establishing a suitable working capital management model.

On the one hand, enterprises need to set up financial supervision institutions internally, and under the supervision of financial supervision departments, they can reduce the financial losses caused by financial personnel in their work. The management of an enterprise needs to improve its management knowledge and organizational ability. Managers of enterprises need to learn the latest management knowledge and constantly improve their own ability and level, so as not to be overwhelmed in the fierce market competition. At the same time, it is also necessary to improve the management's organizational leadership and make the enterprise develop more sustainably.

On the other hand, enterprises should also improve the level of financial personnel, attach importance to the training of financial management personnel, provide them with necessary learning opportunities and conditions, properly organize on-the-job training of financial management personnel, learn knowledge related to financial work, improve the efficiency of financial personnel in their future work, and let them better integrate into the ever-changing market economy environment.

### **5.2. Strengthen the Management of Accounts Receivable**

Enterprises need to establish a relatively independent credit management department and adhere to the credit evaluation system. Without rules, there is no Fiona Fang. Only by establishing relevant systems and treaties and strictly implementing them in the business process can enterprises manage accounts receivable well. The existence of accounts receivable will lead to the danger of bad debts. Enterprises should also establish the provision for doubtful debts system

and always be prepared to bear bad debts. Enterprises also need to estimate the possibility of bad debt losses in advance, actively establish the provision for doubtful debts system, and enhance the ability of enterprises to bear the risk of bad debts, so that enterprises can handle accounts receivable in time.

### 5.3. Improve the Internal Control of Inventory

Enterprises should make a reasonable procurement plan, and a good plan can improve work efficiency and reduce expenditure costs. First of all, enterprises should estimate the quantity and time needed for commodity procurement, and make reasonable inventory purchases. In the traditional procurement mode, most procurement personnel will use habits or experience as the basis for procurement, but there are certain risks in this procurement method. Due to the rapid development of the economic market, materials are likely to be inconsistent with the needs. Therefore, enterprises should establish a sound procurement department to ensure effective procurement, so as to avoid unexpected situations and affect the production and sales process of enterprises. Secondly, it is necessary to prevent the purchase of too many commodities, the backlog of funds and the occupation of accumulated space. Personnel at all levels should have a strong sense of control and supervision, and the first level is in charge of the first level, which is closely linked. When purchasing, relevant procurement personnel need to purchase in strict accordance with the approved and audited procurement contracts; Finally, it is necessary to make clear the quantity of goods to be consumed, strictly control the procurement cost and reduce the loss. Enterprises should make a reasonable and perfect procurement plan, report to the leaders in time if there is any emergency, and notify the accounting and planning department of the enterprise.

### 5.4. Optimize the Structure of Corporate Debt Funds

In the structure of current liabilities, the proportion of each item is different, and the liquidity of liabilities is also different, which leads to the difference of total liquidity efficiency of current liabilities. Reasonable calculation of current ratio is the premise of safe operation of enterprise working capital. The healthy operation of working capital can not only save capital occupation, but also help to improve the solvency of enterprises. Enterprises should determine the amount of current assets according to the requirements of debt payable and operating expenses, so as to maximize the liquidity and

income of assets. Enterprises should pay attention to the comparison of current assets, current liabilities and enterprise operation changes in combination with the actual situation of their own operations, comprehensive capital cost, profitability and other related factors, dynamically and scientifically arrange the proportion of current and long-term assets and liabilities to meet the company's daily operation demand for funds [6], and control the current liabilities and current asset structure within a reasonable range.

## 6. Tag

To sum up, the management of working capital is related to the survival and development of enterprises, and it is very important for enterprises. This paper explores the operating conditions of K enterprise, and finds that the inventory turnover rate and accounts receivable turnover rate of K enterprise are far lower than those of peers, indicating that its working capital management level is low and its financial risk level is high. In order to maximize the overall interests, K enterprise must improve the management level of working capital, which can be improved from the aspects of strengthening the management of accounts receivable, perfecting the internal control of inventory, establishing a good supplier cooperation relationship and optimizing the debt capital structure of enterprises.

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