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### Working Capital Guarantee at BIBICA Joint Stock Company

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#### Abstract

Working capital management is an important factor in corporate finance, it directly affects the liquidity, risk and profitability of the business. Maintaining liquidity and effectively managing working capital is a necessary and sufficient condition for businesses to survive and develop sustainably. However, current uncertainties in the global economy and financial markets have placed increasing pressure on businesses and their supply chains, hence the

focus on optimizing liquidity. The entity's accounts and free cash flow are very important. The task of business managers is to improve efficiency and working capital turnover while ensuring profitability is maintained. The article focuses on analyzing the situation of ensuring working capital at BIBICA Company, thereby proposing solutions to improve the efficiency of working capital management.

**Keywords:** Guarantee, Working Capital, Company

#### 1. Working capital concept

If a business wants to survive and develop, it needs to have a certain amount of capital to help the business produce and do business. Therefore, capital is a prerequisite for establishing a business, capital is also a leading factor in all production and business processes.

Business capital of an enterprise is understood as the amount of money advanced to satisfy the input factors of the enterprise. Depending on the type of business, the scale and business capital structure are different. Business capital is also a monetary expression of all assets invested in business for profit purposes. Based on economic uses, the business capital of an enterprise includes: Fixed capital, working capital, and financial investment capital. In which, working capital (working capital) of a business is the amount of money advanced on current assets to ensure that the business process takes place regularly and continuously.

In a market economy, if businesses want to conduct production and business, in addition to labor materials, they need to have labor objects. During the process of participating in business activities, the enterprise's labor objects are specifically expressed in the form of the enterprise's current assets. In businesses, current assets are divided into two types: production current assets and circulating current assets.

- Production current assets include types such as raw materials, fuel, spare parts. Production reserves, materials in the production process and labor materials that do not qualify as assets. Fixed assets.
- Current assets in circulation include: products, finished products awaiting consumption, capital gains in cash, capital in payments, expenses awaiting transfer, prepaid expenses.

To ensure that the production and business process takes place regularly and continuously, businesses need to have a certain level of liquid assets. To form those current assets requires an initial amount of capital and that capital is called working capital. Therefore, it can be said that a business's working capital is the amount of monetary capital advanced to invest in purchasing the business's current assets.

Unlike fixed assets, mobile assets have the characteristic of always changing their form of expression to create products, their value is transferred entirely at once into the product's cost price. The working capital of an enterprise continuously moves through business cycles, expressed through three stages: Production reserve, production and circulation.

Working capital circulation cycle diagram:

$T - H - \text{Production} - H' - T'$

- Phase 1 (T – H): Enterprises use money to buy goods, raw materials, etc. Then working capital changes from monetary form to materials and goods form.
- Phase 2 (H - Production - H'): Goods go through production steps. During this stage, capital changes from the form of goods to the form of unfinished products, semi-finished products.
- Phase 3 (H' – T'): Enterprises sell products and collect money. In this stage, capital is transformed from finished product form to monetary form.

Because the production and business process take place continuously, the circulatory movement of capital also takes place continuously and repeatedly. The circulation takes place continuously, so at the same time there often exists different parts of working capital at different stages of the reproduction process. When participating in the production and business process, working capital transfers all its value in one go and is fully refunded when the business completes a business cycle. Thus, working capital completes a cycle after one business cycle.

So, we can see: an enterprise's working capital is the amount of capital advanced to form the enterprise's current assets, ensuring that the enterprise's production and business activities take place regularly. Continuously and in the process of circulating the value of working capital is completely transferred at the end of the product consumption process. Then we say that working capital has completed a cycle after a business cycle.

**2. Working capital needs of businesses**

A business's business cycle is the average time needed to purchase and store materials, produce products, sell finished products, and collect sales proceeds. Usually, the business cycle is divided into 3 phases:

- + Procurement and material storage phase.
  - + Production phase.
  - + Stage of selling products and collecting money from sales.
- During the business cycle of an enterprise, the need for working capital arises. The need for working capital can be determined according to the following formula:

$$\text{Demand Working capital} = \frac{\text{Reserve level inventor} + \text{Accounts receivable from customers} - \text{Accounts payable to suppliers and other liabilities are cyclical}}$$

Properly determining working capital needs is meaningful for businesses:

- Ensure that the production and business process takes place regularly and continuously.
- Improve the efficiency of capital use, avoid stagnation or artificial stress on working capital.
- Correct determination of necessary regular working capital needs is the basis important for organizing capital mobilization (identifying funding sources).

A business's working capital need is an unstable quantity and depends on many factors. In particular, it is necessary to pay attention to some of the following factors:

- Production factors:** Product production cycle, business scale, technical characteristics, production technology of the enterprise, complexity of manufactured products, level of process organization manufacture...

- Factors in purchasing materials and consuming products:** Distance between the business and the supplier, market supply capacity, fluctuations in prices of materials that the business uses for operations. Production and business activities, delivery term, quantity, type, price.
- Payment factors:** Product consumption and credit policies of businesses directly affect payment terms and the size of receivables. Therefore, the organization of goods consumption and payment collection directly affects the capital needs of the business.

In addition to the above factors, working capital needs also depend on seasonal nature and the level of organization and management of working capital use.

**3. The situation of ensuring working capital at BIBICA Company**

**3.1 Determining working capital needs at the Company**

Operating in the field of commerce and services with working capital structure accounting for a major proportion, the issue of using working capital effectively is the Company's top priority.

Throughout the Company's business operations, the need for working capital always arises. Determining the necessary regular working capital need is an important issue in the use of working capital. In current economic conditions, correctly and reasonably determining regular working capital needs is of great significance to the Company. When the Company correctly determines its regular working capital needs, it will help the Company avoid capital stagnation, use capital reasonably and economically, and improve the efficiency of working capital use. It is an important basis for determining funding sources for the Company's working capital needs.

Recognizing that importance, the work of determining working capital needs in the Company is carried out regularly every year. Determining the Company's working capital needs is influenced by the following factors: inventory levels, customer receivables and the Company's suppliers' payables. The Company's working capital needs in recent years are determined through Table 1.

**Table 1:** Company's working capital needs (Unit: Dong)

	31/12/2020	31/12/2021	31/12/2022	Difference			
				2021/2020		2022/2021	
					(%)		(%)
1 Inventory	72.217.736.499	119.633.885.632	122.488.395.666	47.416.149.133	65.66	2.854.509.974	2.39
2 Receivable	32.991.133.877	68.710.495.844	65.068.213.173	35.719.361.967	108.27	-3.642.282.671	-5.30
3 Payable	75.147.492.654	96.204.877.283	92.476.793.641	21.057.384.629	28.02	-3.728.083.642	-3.88
4 Needs (4=1+2-3)	30.061.377.722	92.139.504.193	95.079.815.138	62.078.126.471	206.50	2.940.310.945	3.19

**Source:** BIBICA's consolidated financial statements for 2020, 2021, 2022)

Through Table 1, we see that the Company's working capital needs are tending to increase. Specifically, the working capital need at the end of 2020 was more than 30 billion, in 2021 the working capital need increased to more than 92 billion, an increase compared to 2020 of more than 62 billion, corresponding to an increase rate of 206.5%. In 2022, working capital demand increases to more than 95 billion, an increase compared to 2021 of nearly 3 billion, corresponding to an increase rate of 3.19%. The company's

working capital needs have increased in recent years, the reason being that in recent years, due to market fluctuations and the economic crisis, the amount of goods stored in warehouses and accounts receivable has become stronger. Accounts receivable from customers and accounts payable to suppliers all change over the years.

Although customer receivables have decreased, they are still at a high level because the business focuses on developing key products that account for a sales ratio of 10% or more compared to total sales such as: hura brands sumika, migita, cheery Lobaka bread and grape butter sponge cake may be the reason why the company extended credit to customers and still owed customers a lot. Especially in 2022, seeing that prices are increasing, the company has stockpiled more raw materials, causing inventory to increase.

To draw a conclusion on whether the Company's working capital needs are reasonable or not, it is necessary to take an in-depth look at the items in the Company's working capital structure.

**3.2 Source of funding for the Company's working capital needs**

To ensure that the production and business process takes place regularly and continuously, working capital needs must be met promptly and fully. Therefore, mobilizing as well as managing and using working capital is very important and necessary.

Based on the time of capital mobilization and capital use, working capital is funded from two sources: regular working capital (taken from long-term debt and equity) and temporary working capital (taken from long-term debt and equity). Taken from short-term debt).

In which: -

Regular working capital = Current assets - Short-term debt.

- Temporary working capital = Short-term debt

The Company's working capital is formed from two specific sources shown in Table 2.

**Table 2:** Sources of the company's working capital (unit: Dong)

working capital resources	31/12/2022		31/12/2021		TL (%)		
		IT (%)		IT (%)			
frequent	212,439,629,585	50.37	149,682,227,373	44.90	62,757,402,212	41.93	5.47
temporary	209,357,352,483	49.63	183,690,930,005	55.10	25,666,422,478	13.97	-5.47
	421,796,982,068	100	333,373,157,378	100.00	88,423,824,690		

**Source:** BIBICA's consolidated financial statements for 2020, 2021, 2022

Looking at the table above, we see that in 2022 the Company's source of working capital formation will change in both proportion and quantity. Specifically, of the total working capital at the end of 2021, temporary working capital is more than 183 billion, accounting for 55.1%, regular working capital is more than 149 billion, accounting for 44.9%. By the end of 2022, the Company's working capital structure will change, the temporary working capital is more than 209 billion, accounting for 49.63% of the total

working capital, an increase compared to the end of the year. 2021 is more than 25 billion with an increase rate of 13.97%, regular working capital is more than 212 billion, accounting for a proportion of 50.37%, an increase compared to the end of 2021 of 5.47%, in terms of volume. The increase in regular working capital in 2022 compared to the end of 2021 is more than 62 billion, corresponding to an increase rate of 41.93%.

Looking at Table 2, we see that the Company used temporary working capital to finance part of its current assets, part of its current assets was financed by permanent working capital. With the Company's working capital structure as above, it can be said that with the above financing model, the Company has ensured the principle of financial balance. However, the financing policy that the Company is applying makes the cost of capital high. Therefore, the Company needs to consider carefully and take measures to fully utilize capital, reduce costs, maintain reputation with partners while still ensuring solvency, strengthen management and improve efficiency. Increase the efficiency of using this capital source.

Thus, to ensure enough working capital for the Company's production and business activities, the Company must mobilize from many different sources, mainly short-term debt. Short-term debt is the Company's main source of working capital, so it is necessary to consider the proportion of each debt in total short-term debt. We see that in 2022 the Company's short-term debt has increased, from more than 183 billion at the end of 2021 to more than 209 billion at the end of 2022, which is an increase of more than 25 billion with an increase rate of 13.97%. The reason is due to: payables to sellers; Expenses payable, these are two items that account for a large proportion of the Company's total short-term debt. In 2022, the proportion of these two indicators will change. Specifically: In 2021, the proportion of payable expenses is 18.76%, payable to sellers is 52.37%, but in 2022 the proportion of payable expenses increases to 21.43%, payable to suppliers. Sales decreased to 44.17%, in addition to the change in proportion, there was a change in quantity of those two indicators. Payable expenses increased by more than 10 billion with an increase rate of 30.15%, payables to sellers decreased by more than 3 billion with a decrease rate of 3.88% but still remained at a high level. This shows that on the one hand the Company is using financial leverage to increase profits, on the other hand the Company is appropriating a large amount of capital from suppliers, the amount of appropriation is still high, when using this appropriated capital helps the Company in ensuring temporary working capital needs. However, the Company needs to review its payment organization to avoid reducing its reputation with suppliers. In particular, the company's short-term loans and debts in 2022 decreased significantly by more than 34 billion compared to 2021, showing that the company borrows less and is less dependent on outsiders.

Thus, in 2022 the Company's working capital structure is at a reasonable level. Each funding source has certain limitations. Therefore, the Company needs to have measures to fully utilize capital, reduce costs, build prestige with partners while still ensuring solvency. The Company also needs to organize the management and reasonable use of loans as well as the capital appropriated by the Company. During the two years from 2021 to 2022, Bibica's regular working capital is positive, showing that the business has

good ability to finance short-term business activities as well as short-term liquidity. Forecasting the financial situation in general and determining working capital needs in particular are relatively accurate.

#### 4. Some ideas to ensure working capital needs at the Company

Based on the analysis of the current situation of the Company's use of working capital, combined with the Company's operating orientation and the general economic context of the country, along with their knowledge, the authors would like to propose some opinions to better organize management and improve the efficiency of working capital use at Bibica Joint Stock Company are as follows:

*Firstly*, it is necessary to be proactive in determining working capital needs

Working capital regularly accounts for a large proportion of total business capital and determines most of the Company's production and business activities. Therefore, determining working capital needs is a complex issue, which must be determined in accordance with the Company's scale and business conditions. In current conditions, determining correct and reasonable regular working capital needs is very important for the Company's business operations. On the other hand, incorrect determination of working capital needs also causes losses such as not having enough capital to carry out signed economic contracts, reducing the Company's ability to repay debt, increasing financial risks. And reduces the Company's profits due to having to borrow to solve financial difficulties.

Therefore, proactively identifying working capital needs, mobilizing and using working capital of businesses is an important financial measure to improve the efficiency of working capital use at the Company. Developing a plan to mobilize and use the company's capital is an activity aimed at forming plans for organizing funding sources for the Company's working capital needs and using them effectively.

*Secondly*, it is necessary to carry out the work of building a comprehensively strong unit

Build a team of officials and employees with a sense of discipline, good professional skills, and a high sense of responsibility. Regularly organize training and update financial and economic management knowledge for officials and professional staff, thoroughly grasp the spirit of thrift and avoid waste in all stages and departments in the Company.

Building a truly united, unified labor collective that supports and helps each other complete tasks. There is no shortage of jobs for workers. Gradually build a cultural lifestyle, build a serious and effective working style. Complete the Company's internal management regulations in the direction of increasing the initiative and creativity of groups and individuals in production and business activities.

In particular, the company needs to focus on improving the quality of its management staff and the quality of its workforce to create work motivation.

- It is necessary to form a reasonable labor structure, ensuring employment on the basis of proper assignment of tasks.
- It is necessary to check skills when assigning work to workers. Special attention should be paid to salary

payment, bonuses, and encouragement of material benefits for employees.

- Creating collective and individual motivation for workers is a decisive factor in economic efficiency.

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