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## **Current Governance of Working Capital: A Case Study at Thang Long Construction and Mechanical Joint Stock Company**

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### **Abstract**

Working capital governance plays a crucial role in ensuring solvency, maintaining production and business operations, and improving the efficiency of capital utilization within a business. This study analyzes the current state of working capital governance at Thang Long Construction and Mechanical Joint Stock Company (TLCJSC) during the period 2021–2023 through the following aspects: cash capital governance, accounts receivable governance, inventory governance, and working capital utilization

efficiency. The research results show that the company has made positive changes in improving the speed of working capital turnover and capital utilization efficiency. However, the enterprise still faces some limitations such as heavy reliance on short-term capital, declining solvency, and a significant increase in the scale of accounts receivable. Based on this, the study proposes several directions to improve the efficiency of working capital governance in the future.

**Keywords:** Working Capital, Working Capital Governance, Construction Company, Solvency

### **1. Introduction**

In an increasingly competitive environment and a volatile business environment, working capital becomes a decisive factor in a company's ability to maintain its production and business operations. For construction companies, the characteristics of long production cycles, large project volumes, and extended payment terms make the need for working capital governance even more critical.

TLCJSC is a business operating in the construction and mechanical engineering sectors with many large-scale projects. In recent years, the company has faced many difficulties due to the impact of the Covid-19 pandemic, fluctuations in raw material prices, and increasingly fierce competition in the market. This necessitates improving the efficiency of working capital governance to ensure liquidity and effective capital utilization. Therefore, studying the current state of working capital governance at the company is significant both theoretically and practically.

### **2. Method**

This study uses financial statement analysis, descriptive statistics, and comparative methods to assess the current state of working capital governance at Thang Long Construction and Mechanical Joint Stock Company during the period 2021–2023. Data was collected from the company's financial statements and annual reports.

### **3. Results and discussion**

#### **3.1 Governance of working capital**

The research results show that the company's recurring capital tended to decrease from VND 21,010 million in 2021 to VND 18,792 million in 2023. However, equity capital still accounts for a very large proportion of recurring capital, fluctuating from 92.65 % to nearly 100%. Recurring working capital remained positive in all three years, indicating that the business basically ensured its regular working capital needs.

**Table 1:** Structure of the Company's Regular Working Capital (million VND)

| Asset  | 2021          |            | 2022          |            | 2023          |            | Comparison 2021/2022 |             | Comparison 2022/2023 |              |
|--|---------------|------------|---------------|------------|---------------|------------|----------------------|-------------|----------------------|--------------|
|  | N             | %          | N             | %          | N             | %          | N                    | %           | N                    | %            |
| <b>I. Assets</b>   | <b>22,269</b> | <b>100</b> | <b>29,637</b> | <b>100</b> | <b>49,703</b> | <b>100</b> | <b>7,368</b>         | <b>14.1</b> | <b>20,066</b>        | <b>25.2</b>  |
| 1. Current assets  | 15,341        | 68.8       | 23,668        | 79.8       | 44,655        | 89.8       | 8,327                | 21.3        | 20,987               | 30.7         |
| 2. Long-term assets  | 2,938         | 31.1       | 5,969         | 20.1       | 5,048         | 10.1       | -959                 | -7.44       | -921                 | -8.36        |
| <b>II. Funding Sources</b>   | <b>22,269</b> | <b>100</b> | <b>29,637</b> | <b>100</b> | <b>49,703</b> | <b>100</b> | <b>7,368</b>         | <b>14.1</b> | <b>20,066</b>        | <b>25.2</b>  |
| 1. Temporary funding   | 1,259         | 5.65       | 10,545        | 35.5       | 30,911        | 62.1       | 9,286                | 78.6        | 20,366               | 49.1         |
| 2. Regular funding sources   | 21,010        | 94.3       | 19,092        | 64.4       | 18,792        | 37.8       | -1,918               | -4.78       | -300                 | -0.79        |
| a. Long-term debt  | 1,545         | 7.35       | 0             | 0.00       | 1             | 0.01       | -1,545               | -100,       | 1                    | 100          |
| b. Equity  | 19,465        | 92.6       | 19,092        | 100        | 18,791        | 99.9       | -373                 | -0.97       | -301                 | -0.79        |
| <b>III. Regular working capital sources<br/>I(1) - II(1) or II(2) - I(2)</b> | <b>14,082</b> |            | <b>13,123</b> |            | <b>13,744</b> |            | <b>82</b>            | <b>0.30</b> | <b>-32</b>           | <b>-0.12</b> |

Source: Financial report of TLCJSC (2021-2023)

Based on Table 1, the Company's regular capital over the three years showed a downward trend from VND 21,010 million to VND 18,792 million. Equity capital accounted for the largest proportion of regular capital, at 92.65 % at the end of 2021, and at the end of 2022 and 2023, accounting for 100 % and 99.99 % respectively. Along with this, the Company's long-term assets accounted for a small

proportion over the three years. This is more than the current assets. Thus, the company has secured funding for its regular working capital needs. In other words, the company's regular capital is sufficient to finance its long-term assets. This is a positive sign. Regarding the organization of the company's funding and business operations.

**Table 2:** Structure and changes in the Company's working capital (million VND)

| Asset   | 2021          |      | 2022          |      | 2023          |      | Comparison 2021/2022 |             | Comparison 2022/2023 |             |
|---|---------------|------|---------------|------|---------------|------|----------------------|-------------|----------------------|-------------|
|   | N             | %    | N             | %    | N             | %    | N                    | %           | N                    | %           |
| <b>A. Total Working Capital (TSNH)</b>                          | <b>15,341</b> |      | <b>23,668</b> |      | <b>44,655</b> |      | <b>8,327</b>         | <b>21.3</b> | <b>20,987</b>        | <b>30.7</b> |
| <b>B. Labor Resources</b>                                       | <b>15,341</b> |      | <b>23,668</b> |      | <b>44,655</b> |      | <b>8,327</b>         | <b>21.3</b> | <b>20,987</b>        | <b>30.7</b> |
| 1. Regular working capital = Regular capital - Long-term assets | 14,082        | 92.1 | 13,123        | 55.4 | 13,744        | 30.7 | -959                 | -3.52       | 621                  | 2.31        |
| 2. Temporary working capital sources                            | 1,259         | 7.85 | 10,545        | 44.5 | 30,911        | 69.2 | 9,286                | 78.6        | 20,366               | 49.1        |

Source: Financial report of TLCJSC (2021-2023)

Furthermore, temporary working capital increased sharply from VND 1,259 million in 2021 to VND 30,911 million in 2023. This reflects a growing trend of using short-term capital to finance business operations. While this provides flexibility in capital mobilization, the increasing reliance on temporary capital also increases liquidity risk and short-term debt repayment pressure.

### 3.2 Governance of cash capital

Cash governance at the company is primarily based on forecasting the cash flow of each project and the governance experience of the accounting department. The company has not yet implemented a systematic process for determining the optimal budget level.

**Table 3:** Cash capital structure of the Corporation (million VND)

| S. No | Target              | 2021   | 2022   | 2023   | Comparison 2022/2021 |       | Comparison 2023/2022 |                |
|-------|---------------------|--------|--------|--------|----------------------|-------|----------------------|----------------|
|       |                     |        |        |        | N                    | %     | N                    | %              |
| 1     | Cash                | 8,778  | 10,679 | 470    | 1,901                | 9.77  | -10,209              | -91.5          |
| 2     | Bank deposits       | 124    | 2,300  | 4,801  | 2,176                | 89.7  | 2,501                | 35.2           |
| 3     | Cash capital        | 8,902  | 12,979 | 5,271  | 4,077                | 18.6  | -7,708               | -42.2          |
| 4     | Current assets      | 15,341 | 23,668 | 44,655 | 8,327                | 21.3  | 20,987               | 30.7           |
| 5     | Cash/Current Assets | 0.580  | 0.548  | 0.118  |                      | -3.19 | <b>But</b>           | <b>- 43.03</b> |

Source: Financial report of TLCJSC (2021-2023)

During the study period, total cash capital fluctuated significantly. In 2022, cash capital reached VND 12,979 million, an increase of 18.63 % compared to the previous year. However, by 2023, this figure had sharply decreased to

VND 5,271 million, a decrease of 42.24%. The structure of cash capital showed a clear shift from cash to bank deposits. The proportion of bank deposits increased from a very low level in 2021 to over 91% of total cash capital in 2023.

**Table 4:** Indicators for evaluating the company's cash capital governance situation

| S. No | Target  | Unit         | 2021   | 2022   | 2023   | Comparison 2023/2022 |        | Comparison 2023/2022 |       |
|-------|---|--------------|--------|--------|--------|----------------------|--------|----------------------|-------|
|       |   |              |        |        |        | N                    | %      | N                    | %     |
| 1     | Current assets                                    | million dong | 15,341 | 23,668 | 44,655 | 8,327                | 21.3   | 20,987               | 30.7  |
| 2     | Cash and cash equivalents                         | million dong | 8,902  | 12,979 | 5,271  | 4,077                | 18.6   | -7,708               | -42.2 |
| 3     | Inventory   | million dong | 0.700  | 1,187  | 11,567 | 1,186                | 99.8   | 10,380               | 81.3  |
| 4     | Short-term debt                                   | million dong | 1,258  | 10,545 | 30,911 | 9,287                | 78.6   | 20,366               | 49.1  |
| 5     | Current ratio (5)=(1)/(4)                         | time         | 12,195 | 2,244  | 1,445  | -9,950               | -68.9  | -0,800               | -21.6 |
| 6     | Quick ratio (6) = [(1)-(3)] / (4)                 | time         | 12,194 | 2,132  | 1,070  | -10,062              | -70.2  | -1,061               | -33.1 |
| 7     | Instant payment coefficient (7) = (2) / (4)       | time         | 7,076  | 1,231  | 0.171  | -5,845               | -70.3  | -1,060               | -75.6 |
| 8     | Profit before interest and taxes                  | million dong | 471    | -368   | -278   | -839                 | -814.5 | 90                   | -13.9 |
| 9     | The amount of interest payable during the period. | million dong | 0      | 0      | 0      | 0                    | 0.00   | 0                    | 0     |
| 10    | Interest payment ratio (10) = (8)/(9)             | time         | 0      | 0      | 0      | 0                    | 0.00%  | 0                    | 0     |

Source: Financial report of TLCJSC (2021-2023)

Although the company maintained its ability to meet short-term obligations, its solvency ratios all showed a downward trend. The current ratio decreased from 12.195 times in 2021 to 1.445 times in 2023; the quick ratio decreased from 12.194 times to 1.070 times; and the immediate ratio decreased from 7.076 times to just 0.171 times. This indicates a significant decline in the company's liquidity.

### 3.3 Receivable governance

The company's accounts receivable increased rapidly during the study period, from VND 6,323 million in 2021 to VND 26,410 million in 2023. In the structure of accounts receivable, customer receivables consistently accounted for the majority, reaching 98.83 % of total accounts receivable in 2023.

**Table 5:** Fluctuation in the Company's Accounts Receivable (million VND)

| S. No | Target                             | 2021         |            | 2022         |            | 2023          |            | Comparison 2022/2021 |             | Comparison 2023/2022 |             |
|-------|------------------------------------|--------------|------------|--------------|------------|---------------|------------|----------------------|-------------|----------------------|-------------|
|       |                                    | N            | %          | N            | %          | N             | %          | N                    | %           | N                    | %           |
| 1     | Accounts receivable from customers | 6,047        | 95.6       | 6,001        | 65.7       | 24,326        | 98.8       | -46                  | -0.38       | 18,325               | 60.4        |
| 2     | Pay the seller in advance.         | 66           | 1.04       | 3,128        | 34.2       | 2,084         | 16.3       | 3,062                | 95.8        | -1,044               | -20.0       |
| 3     | Other receivables                  | 210          | 3.32       | 0            | 0          | 0             | 0          | -210                 | -100        | 0                    | 0           |
| 4     | Provision for doubtful receivables | 0            | 0          | 0            | 0          | 0             | 0          | 0                    | 0           | 0                    | 0           |
| 5     | Short-term receivables             | <b>6,323</b> | <b>100</b> | <b>9,129</b> | <b>100</b> | <b>26,410</b> | <b>100</b> | <b>2,806</b>         | <b>18.1</b> | <b>17,281</b>        | <b>48.6</b> |

Source: Financial report of TLCJSC (2021-2023)

The main reason is the specific nature of the construction industry, with lengthy acceptance and settlement periods, especially for projects using state capital. However, the company has established a relatively strict debt governance

process, including selecting investors, checking the legality of projects, specifying payment terms, and tracking debts for each project.

**Table 6:** Receivable Turnover Time of the Company

| S. No | Target   | Unit         | 2021   | 2022   | 2023   | Comparison 2022/2021 |       | Comparison 2023/2022 |       |
|-------|--|--------------|--------|--------|--------|----------------------|-------|----------------------|-------|
|       |  |              |        |        |        | N                    | %     | N                    | %     |
| 1     | Average accounts receivable                    | million dong | 5,551  | 6,024  | 15,164 | 473                  | 4.09  | 9,140                | 43.1  |
| 2     | Net revenue                                    | million dong | 2,149  | 5,434  | 40,667 | 3,285                | 43.3  | 35,233               | 76.4  |
| 3     | Accounts receivable turnover (3) = (2)/(1)     | Ring         | 0.39   | 0.90   | 2.68   | 0.51                 | 39.9  | 1.78                 | 49.6  |
| 4     | Average collection period (4) = 360 days / (3) | Day          | 929.90 | 399.09 | 134.23 | -530.82              | -39.9 | -264.85              | -49.6 |

Source: Financial report of TLCJSC (2021-2023)

Receivable governance has improved significantly. The accounts receivable turnover ratio increased from 0.39 in 2021 to 2.68 in 2023, while the average collection period decreased from 929.90 days to 134.23 days. This indicates that the company's debt collection efforts have achieved positive results.

### 3.4 Governance of inventory

The company's inventory increased sharply from VND 700 million in 2021 to VND 11,567 million in 2023. In the inventory structure, work-in-progress production costs accounted for the majority, reflecting the characteristics of a construction company with many projects underway.

**Table 7:** Inventory Structure of the Company (million VND)

| Target                            | 2021         |            | 2022         |            | 2023          |            | Comparison 2022/2021 |             | Comparison 2023/2022 |             |
|-----------------------------------|--------------|------------|--------------|------------|---------------|------------|----------------------|-------------|----------------------|-------------|
|                                   | N            | %          | N            | %          | N             | %          | N                    | %           | N                    | %           |
| Raw materials                     | 0            | 0.00       | 1,184        | 99.7       | 0             | 0.00       | 1,184                | 100         | -1,184               | -100        |
| Work-in-progress production costs | 0.700        | 100        | 2,484        | 0.21       | 11,567        | 100        | 2                    | 56.0        | 11,565               | 99.9        |
| <b>Inventory</b>                  | <b>0.700</b> | <b>100</b> | <b>1,186</b> | <b>100</b> | <b>11,567</b> | <b>100</b> | <b>1,186</b>         | <b>99.8</b> | <b>10,381</b>        | <b>81.3</b> |

Source: Financial report of TLCJSC (2021-2023)

The company forecasts material requirements based on project progress and employs a perpetual inventory method for material governance. Ordering according to project

timelines helps reduce inventory costs but also carries the risk of significant fluctuations in material prices.

**Table 8:** Determining the Inventory Turnover Time of the Company

| Target                           | Unit         | 2021  | 2022    | 2023   | Comparison 2022/2021 |       | Comparison 2023/2022 |       |
|----------------------------------|--------------|-------|---------|--------|----------------------|-------|----------------------|-------|
|                                  |              |       |         |        | N                    | %     | N                    | %     |
| Average HTK                      | million dong | 0.350 | 593,850 | 6,377  | 593,500              | 99.8  | 5,783                | 82.9  |
| Cost of goods sold               | million dong | 2,050 | 4,613   | 39,445 | 2,563                | 38.4  | 34,832               | 79.0  |
| HTK Wheel                        | Ring         | 5,857 | 7,768   | 6,186  | -5.849               | -99.7 | -1,582               | -11.3 |
| Time for one rotation of the HTK | Day          | 0.061 | 46,344  | 58,201 | 46,283               | 99.7  | 11,856               | 11.3  |

Source: Financial report of TLCJSC (2021-2023)

Despite the rapid increase in inventory, the company has maintained a relatively stable turnover rate. However, the company has not yet made provisions for inventory devaluation, a shortcoming that needs to be addressed in the context of the challenging construction industry.

### 3.5 Efficiency of working capital utilization

The company's working capital efficiency improved significantly during the study period. The working capital

turnover ratio increased from 0.115 in 2021 to 1.188 in 2023. At the same time, the working capital turnover period decreased sharply from 3,136 days to 303 days.

The working capital ratio also decreased from 8.710 times to 0.842 times, indicating that the business requires less working capital to generate one unit of revenue. These results reflect a significant improvement in the company's working capital governance and utilization.

**Table 9:** Performance and efficiency indicators for working capital governance

| S. No | Target  | Unit         | 2021   | 2022     | 2023     | Comparison 2022/2021 |       | Comparison 2023/2022 |       |
|-------|---|--------------|--------|----------|----------|----------------------|-------|----------------------|-------|
|       |   |              |        |          |          | N                    | %     | N                    | %     |
| 1     | Net revenue from sales and services                 | million dong | 2,149  | 5,434    | 40,581   | 3,285                | 43.3  | 35,147               | 76.3  |
| 2     | Average working capital during the period           | million dong | 18,718 | 19,504   | 34,162   | 786                  | 2.06  | 14,658               | 27.3  |
| 3     | Turnover of VLD = (1) / (2)                         | ring         | 0.115  | 0.279    | 1.188    | 0.164                | 41.6  | 0.909                | 62    |
| 4     | Working capital turnover period = 360 / (3)         | day          | 3,136  | 1,292    | 303,056  | -1.844               | -41.6 | -989,075             | -62   |
| 5     | Working capital content (5) = (2) / (1)             | time         | 8,710  | 3,589    | 0.842    | -5,121               | -41.6 | -2,747               | -62   |
| 6     | Profit before corporate income tax                  | million dong | -278   | -368     | -531     | -90                  | 13.9  | -163                 | 18.1  |
| 7     | Profit margin on working capital = (6)/(2)          | %            | 0      | 1.47     | 1.47     | 0                    | 0%    | 0                    | 0%    |
| 8     | Average daily revenue                               | million dong | 300.77 | 300.78   | 300.79   | 10,000               | 0.00  | 20,000               | 3.3   |
| 9     | Number of days to shorten the labor turnover period | day          | 0      | -1.844   | -989     | 0                    | 0%    | 854                  | -30.1 |
| 10    | Working capital savings = (8)*(9)                   | million dong | 0      | -554,683 | -297,481 | -554,683             | 100   | 257,202              | -30.1 |

Source: Financial report of TLCJSC (2021-2023)

### 4. Conclusion and Recommendations

The research results show that Thang Long Construction and Mechanical Joint Stock Company has achieved certain successes in working capital governance. The company has improved the speed of capital turnover, enhanced the efficiency of debt collection, and optimized the cash capital structure. Indicators reflecting the efficiency of working capital utilization all show positive trends.

However, the company still faces several limitations such as increasing reliance on short-term capital, declining solvency, rapidly increasing accounts receivable, and a lack of provision for inventory devaluation. In the future, the company needs to improve its cash flow forecasting, develop a more effective trade credit policy, diversify long-term financing sources, and strengthen financial risk control to enhance working capital governance efficiency and market competitiveness.

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