



Received: 25-04-2026
Accepted: 05-06-2026

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

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

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DOI: <https://doi.org/10.62225/2583049X.2026.6.3.6454>

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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	%
I. Assets	22,269	100	29,637	100	49,703	100	7,368	14.1	20,066	25.2
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
II. Funding Sources	22,269	100	29,637	100	49,703	100	7,368	14.1	20,066	25.2
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
III. Regular working capital sources I(1) - II(1) or II(2) - I(2)	14,082		13,123		13,744		82	0.30	-32	-0.12

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	%
A. Total Working Capital (TSNH)	15,341		23,668		44,655		8,327	21.3	20,987	30.7
B. Labor Resources	15,341		23,668		44,655		8,327	21.3	20,987	30.7
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	But	- 43.03

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	6,323	100	9,129	100	26,410	100	2,806	18.1	17,281	48.6

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
Inventory	0.700	100	1,186	100	11,567	100	1,186	99.8	10,381	81.3

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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