

## SKETCHES ON THE ADMINISTRATION OF THE WORK CAPITAL

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### *Summary*

*The Cuban state company is charge of in the search of a bigger development and economic efficiency, objective that demands the improvement of its activity in an integral way. In this sense the financial administration in general and the administration of the work capital in particular, they constitute aspects to prioritize. To decipher the behavior of the work capital is of essential importance in the financial analysis, for the narrow relationship that settles down with the operations that affect to the circulating departures. Of there the necessity to analyze different financial instruments and to adapt them to the objectives and necessities of our economy is not anything easy and it is required talent and consecration, but mainly, a full conviction in the principles of the socialism, and on the base of the same ones to arrive to the goal traced with our own economic model. To reach this objectives it should thoroughly be studied the content of the financial indicators that offers the necessary information to know the real situation during the period of time, basing us on the statistical data, accountants and deeper financiers that contribute enough elements that contribute to guide the activity of the directive, when making effective decisions that allow rectifying or to improve the successive action course to short, medium and release term. The objective of this article is to approach some considerations on the Work Capital, providing some theoretical elements to perfect the administration of the companies with different structures, social object and mission, contributing to eliminate the discrepancies that could emerge.*

**Keywords:** Financial Administration, Work Capital, Financial analysis.

To reach the development of the Cuban Economy, it should be left of a new vision of the financing of the companies that would help largely, on the base of a good planning, a better control and inspection of their financial resources. This difficult mission relapses on people in charge of administering the finances in a company which should balance the revenues and expenditures of effective in such way that inactive balances that won't yield any utility for the business don't appear. Product to that is not possible to foresee with accuracy the treasury flows, the financial administrator should be protected maintaining some available balances that allow him to make in front of his commitments in form and terms. This circumstance is the one that bears to the dilemma of optimizing its administration.

In any business, the correct handling of the resources characteristic of the company has a direct incidence and it represents a significant weight in the development its administration; therefore for a manager the control of the resources of its company constitutes an indispensable element. With the result that the administration of the work capital constitutes the function of the financial administration that is devoted to the planeation, execution and control of the handling of its components and its appropriate levels and quality, they allow minimizing the risk and to maximize the managerial profitability, since the work capital is the measure of effective and available liquid assets to finance the daily operations of a company. To possess the results that it offers this information it can help us to administer in a correct way a business and to make good investment decisions. By means of the calculation of the work capital, we can determine if a business can fulfill its current obligations besides that it is very useful to evaluate for how long if a company makes an effective use of its resources. It is for that reason that the magnitude of the work

capital that should look for the company should be that that comes from the optimization of the inventories, bills to get paid, you count to pay and of the cash to operate.

Dissimilar are the approaches of authors approached on the Work Capital thematic, next some of them are mentioned:

Most of the consulted literature coincides with the approach of Gitman that the work capital is not more than the difference between active and passive circulating of a company.

Weston and Brigham outline that the work capital is not more than the investment of the company in active short term - effective, negotiable values, inventories and bills to get paid.

According to Foundations of the Financial Administration: the capital structure, minimizes the capital cost of the company and with it maximizes the company value [2].

It is quite difficult to predict the date in that active circulating that they are not box and other negotiable values can become cash. While more predictable they are these entrances to box, minor will be the work capital that he will need the company.

The authors assume the previous statement, they consider that perhaps it is not so difficult neither impossible if those in charge of administering the finances in the companies left of a previous planning of their resources where in many of the cases prevent and they alert possible damages that can cause incorrect decisions. The above-mentioned explains that the relationship of the work capital with the condition of liquidity of the company, however, it cannot get lots of view the degree of liquidity of each circulating asset and the degree of circulating recoverableness of each passive one, that which sustains the idea that while adult is the margin in that the short term assets of a company cover their obligations short term, more payment capacity it will generate to pay their debts in the moment of his expiration.

The survival of the company, translated in their capacity to cover their short term obligations in the measure in that these conquer, or the probability of being technically insolvent, that which is summarized in the risk, depends on the appropriate administration of the work capital. This expectation is based in that the circulating assets are sources of entrances of effective, as long as the passive ones circulating they are payment sources of effective.

Since most of the companies cannot make coincide the receptions of money with the payments of this, it is necessary that the sources of entrances overcome to the payments. With the result that not alone the circulating assets require of a careful attention, the passive ones circulating they are also important in the financial structure of the company, both play a fundamental list in the composition of the Work Capital, of their to proceed the results they will depend.

The net of work capital the part of the circulating assets that they are financed with long term funds, when considering that the one mounts resultant of the difference between the circulating asset and the passive one circulating, should it be financed with long term funds, because it is considered like part of the circulating asset?

F. Weston, infers that: Is the investment that it carries out the company in active short term (effective, negotiable values, do you count to get paid, inventories) always keeping in mind that the administration of the work capital determines the position of liquidity of the company?

A great part of the time is dedicated by most from the financial administrators to the daily internal operations of the company, which fall under the land of the administration of the work capital [4].

The profitability of a company can it turns affected by the investment excess in active circulating.

The authors agree with the previous statement but they consider that the profitability of a company also can it turns affected to present excesses in their bills to pay and bank loans affecting this way their passive ones circulating.

The companies should have Capital of Net Work to be able to finance their short term debts. While higher it is, the company has less risk of falling in technical insolvency. That is to say that if the work capital increases, it diminishes the risk and therefore it diminishes the profitability.

The general nature of the business type determines the necessities of work capital since these vary depending on the activity type that is carried out. For example, in a company of public services the investments in inventories and bills to get paid are converted quickly cash; however, a

merchandising company has to depend in great measure of the existent demand in the tourism, question that causes in many cases the slow rotation of its inventories because they stay big volumes of products in cold for several months, to in fact give execution to this demand, also to buy those inventories it is required of a high liquidity that goes to the Bank to request loans to pay to the suppliers of not having it the entity, generating bank interest that you/they represent more expenses, what diminishes effective of its circulating assets. This company will have a surplus of work capital when it is able to pay in time its obligations with the suppliers, if it is able to sell with the established commercial margin all its inventories and to liquidate its debts before the term settled down by the Bank.

With regard to the purchase conditions and of sale, while more favorable they are the credit conditions in that are carried out the purchases; less effective it is invested in the inventory. On the other hand, while liberals they are the credit conditions granted to the clients, adult will be the quantity of work capital that will be represented by the bills to get paid. Equally the rotation of the bills to get paid influences notably in the necessities of work capital because it depends on the necessary time to convert those cash. While less time is required to charge these bills, minor will be the amount of work capital that will be needed. That in this case the bills to get paid are affected in their rotation cycle because many demands and commercial reclamations exist to get paid.

#### Conclusions

The financial administration is related with the correct administration of the goods and obligations of the entity, for that that in the measure that the administrators and the economic apparatus of the economic organizations know more envelopes the accounting and the finances will be abler of controlling its organization and their decisions.

The administration of the work capital is sustained in the measure in that one can make a good handling on the level of solvency, while wider it is the margin among the average assets that it possesses the organization and its passive circulating adult will be the capacity to cover the short term obligations.

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