

**See how the guidance by the manager
helped me to tide over funds shortage**



I was running my business in a profitable manner and was not required to borrow a single rupee from my bank. My current account was always running in credit with average balance of at least 2 lacs.

The manager valued my association with the bank and always received me with warmth whenever I met him for any work.

He –time and again---used to enquire whether I need any credit facility from the bank and promised to consider it as expeditiously as possible.

When I used to inform him that I have no real estate to offer as security, the manager always responded instantaneously that there is no need because the cash credit facility will be secured by stock and book debts.

Because of the market conditions, I felt the need to get cash credit **strictly as a standby arrangement** and hence I approached the bank in the month of May, 2017 to know how much cash credit facility I am entitled to. The manager was kind enough to guide me with the application and rules and also suggested that it will be better if balance sheet with all annexures for the financial year 2016-2017 is given.

I informed him that the financial year 2016-2017 has just ended and that the CA would find it difficult to give audited balance sheet. The branch manager was kind enough to inform me that tentative balance sheet would do.

Hence I submitted the tentative balance sheet which was as under

Description	2016-17	Description	2016-17
Capital	10,00,000	Fixed Assets	15,00,000
Profit	1,00,000	Stock	10,00,000
Creditors	30,00,000	Debtors	15,00,000
Outstanding Expenses	5,00,000	Cash + Bank	6,00,000
Total	46,00,000	Total	4600000

The manager entrusted the papers to his Assistant and requested me to come the next day.

I met the Assistant who informed me that I am not eligible for any facility. He further informed me that the working capital gap is negative. However, he suggested to me that let us meet the branch manager who may be able to find some solution.

Myself and the Assistant met the manager who seconded the opinion of his Assistant. Since I did not understand the term **working capital gap**, I requested the branch manager to explain this a bit more. The manager explained as under:

1. Working capital limits like cash credit limit are determined on the basis of the short fall in the working capital. This is called working capital gap.
2. Current assets Minus Current liabilities determine the working capital gap.
3. Working capital gap are normally met in the proportion of 25 per cent and 75 per cent by the owner and bank respectively.

4. He further explained the concepts of current assets and current liabilities.

5. **Current assets are those assets which are useful to run the decided business activity and are expected to be realized within 12 months from the date of balance sheet.** He calculated the current assets as under:

• Stock	10,00,000
• Receivables	15,00,000
• Cash + Bank Balance	6,00,000
• Total current assets	31,00,000

6. **Current liabilities mean those liabilities which are to be paid off within 12 months from the date of the balance sheet.** Current liabilities **include not only amounts payable to creditors for goods but also include outstanding expenses but excludes payment obligations to suppliers of fixed assets like machinery.** He explained as what were the current liabilities in my case as under : [as shown in the balance sheet given to the bank]

• Creditors for goods	30,00,000
• Outstanding expenses	5,00,000
• Total current liabilities	35,00,000

7. The branch manager subtracted the current assets of 31,00,000 from the current liabilities of 35,00,000 which was **negative 4,00,000.**

Manager suggested me to check the figures once again and come back the next day.

I went back to my office and advised the concerned Accounts clerk to re-check the figures who re-confirmed it.

I went back to the branch next day and informed the branch manager that the figures are correct.

The manager was not convinced. He informed me that the arithmetical exercise might be correct **but the classification of current assets and current liabilities would need a re-check again.**

Hence ---after reaching back --- I myself scrutinized all the classification and found that an amount of Rs.10,00,000 ----which was payable to the supplier of the machinery---was included under the head “ current liabilities “. **But I thought** none the less it is to be classified as creditor since this much amount was payable to the supplier—be it a supplier of machinery.

During the meeting with the manager---the next day---I informed him that the details and he was very happy to know that the amount of Rs.10,00,000 was payable to the supplier of the machinery and was not on account supplies of goods. He informed me that Rs.10,00,000 are to be shown separately in the balance sheet and the branch manager then recast the balance sheet as under

Description	2016-17	Description	2016-17
Capital	10,00,000	Fixed Assets	15,00,000
Profit	1,00,000	Stock	10,00,000
Creditors for machinery	10,00,000	Debtors	15,00,000
Creditors for goods	20,00,000	Cash + Bank *	6,00,000
Outstanding Expenses	5,00,000		
Total	46,00,000	Total	46,00,000

The manager went on to inform me as under :

1. current assets are as under --

❖ stock + book debts + cash-bank

❖ $10,00,000+15,00,000+6,00,000 = 31,00,000$

2. Current liabilities are as under :

❖ creditors for goods + outstanding expenses

❖ $20,00,000+5,00,000 = 25,00,000$

3. Working capital gap is

❖ Current assets minus current liabilities

❖ $31,00,000 \text{ less } 25,00,000 = 6,00,000$

When I asked the branch manager ---why he excluded Rs.10,00,000 --- payable to creditors for machinery---the branch manager guided with the reply that **machinery is a fixed asset and has to be used over a period of time—and hence a long term use and needs to be financed through long term source of finance.**

When I asked the branch as to how Rs.10,00,000 are to be paid to the supplier of the machinery, the manager informed me that I can be eligible for term loan and that I need to pay only 25% i.e. Rs.2,50,000 as margin money.

The branch manager informed me that I have the provision of Rs.2,50,000 in the account and that the bank will grant term loan of Rs.7,50,000 which was to be repaid in instalments spanning over 36 months.

Please see next page

In the end, my problem was solved in a manner I never imagined.

Manager gave me following hints [read lessons]

- 1. I should utilize long term funds for long term uses**
- 2. I should always seek term loan if I want to buy fixed assets like machinery.**
- 3. He was careful enough to inform me that I should have capacity to contribute margin money**

And

- 4. I should have sufficient earnings to take care of term loan repayment including interest.**

