## How stock statement is one of the most important monitoring tool to the owner?

Banks expect the borrowers to submit stock statement on monthly basis, the purpose being to allow the withdrawals in the account as per drawing power entitlement of the business. It also helps the Bank to monitor the finance given. Typically the statement seeks information on following parameters.

1. Sales during the month
2. Purchases during the month
3. Stock
4. Debtors
5. Creditors

It is the stock and debtors where the working capital is locked up.  Of course the working capital is released to some extent if the borrower is able to get some of the goods on credit.

And if the borrower does secure credit from the suppliers---for the goods received ---the strain on the working capital is reduced to that extent.

Our bank finances only the working capital gap which is calculated by following the following equation.

1. Stocks + Debtors Less Creditors for goods
2. The net result is called net working capital gap.

3. Bank finances this gap.
4. While financing this gap, Banks expect us to contribute at least 25% [ also known as margin]
5. Remaining 75% are considered by the Bank [ also known as drawing power ]

It has been experienced that many of us do not allot sufficient time to check the stock statement –which is normally attended to by junior level staff.

In fact it is quite possible that the junior level staff prepares the stock statement ---mostly in a hurry and after receiving reminders from bank—and we tend to sign it –as it is---either because there is no time to recheck or because we are not inclined to recheck.

It has been my view that if the owners devote sufficient time to recheck the stock statement data, they will get number of signals ---good or bad---about the business.

If we lay down a practice of going behind the figures, we will get to know following:

1. Whether the sales are going up or down or constant and the remedial steps that need to be initiated?
2. Whether the sales are as planned / targeted?
3. Whether stock level is in tune with the sales?
4. Whether debtor’s level is in consonance with sales?
5. Whether suppliers are being paid on time?

**And ultimately**

6. Whether the drawing power is enough to take care of next month's funds requirement?

But we miss on most of the signals because we avoid ----either by design or are compelled ---to recheck the information being given to the Bank.

I will give an example to buttress this observation

| | Description | January | February | March |
|---|---|---|---|---|
| 1 | Sales during the month | 10,00,000 | 15,00,000 | 12,00,000 |
| 2 | Purchases ----do---- | 13,00,000 | 14,00,000 | 14,00,000 |
| 3 | Stock | 12,00,000 | 15,00,000 | 18,00,000 |
| 4 | Debtors | 11,00,000 | 17,00,000 | 19,00,000 |
| 5 | Creditors | 17,00,000 | 19,00,000 | 22,00,000 |
| 6 | Net Working Capital 3+4-5 | 6,00,000 | 13,00,000 | 15,00,000 |
| 7 | Drawing power 6 x 75% | 4,50,000 | 9,75,000 | 11,25,000 |

Let us assume, the entire data is correct

But the owner signed the stock statement without applying his own checks. If he had spent few minutes and had applied his quality time to recheck the data, he would have surely raised following questions.

1. Drawing power increased to Rs-11,25,000/*in March as compared to Rs-4,50,000/*in January. How?

2. Sales have increased only by Rs.2,00,000/*during the same period. But DP has gone up substantially. What is the reason?
3. Increased DP means increased reliance on bank funds which impacts funding cost. Can we afford it?
4. If there is no bank funding support, then how do we manage?

[There could be many more such questions—but above are the ones that come to our mind immediately]

If only we scan the stock statement—as much as possible –we will become aware about the impending problems.

**Let us pledge to ourselves that**

**no stock statement will be submitted**

**unless and until**

**we devote our quality time**

**to recheck the data.**