

Research on Working Capital Management of Small and Medium-sized Enterprises from the Perspective of Internal Control Effectiveness

Yao Qian^{1, a}

¹School of Accounting, Shandong Women's University, Jinan 250300, China.

^asdnzxyy@163.com

Abstract

As an important part of modern economy and society, the healthy development of small and medium-sized enterprises has attracted more and more attention. Whether there are sufficient funds to support the development of small and medium-sized enterprises has become a key factor for their healthy development. The problem of working capital management has become increasingly prominent. The management of operating capital involves the management of current assets and current liabilities, which correspond to the management of working capital investment and the management of working capital financing respectively. Thus it can be seen that working capital is the foundation of small and medium-sized enterprises, and is also a high-risk project in small and medium-sized enterprises. With the introduction of corporate governance theory into enterprise management, effective internal control system has become an important guarantee for small and medium-sized enterprises to realize working capital management. This paper analyzes the relationship between the effectiveness of internal control and working capital management in small and medium-sized enterprises. By summarizing the problems existing in the working capital management of the interviewed small and medium-sized enterprises, optimization suggestions are put forward from the perspective of the effectiveness of internal control.

Keywords

Internal Control, Working Capital, Effectiveness, Small and Medium-sized Enterprises.

1. INTRODUCTION

With the maturity and perfection of internal control theory and practice, more and more enterprises realize the role and advantage of effective internal control in enterprise management. More and more enterprises begin to introduce internal control into the operation activities of enterprises. The application guidelines of internal control of enterprises divide capital activities into three parts: business activities, financing activities and investment activities. It can be seen that all activities of enterprises can not be separated from funds. In the most frequent business activities, whether the working capital is sufficient has become one of the decisive conditions for the enterprise to realize the continuing operation. The cash flow status of enterprises can reflect the ability of enterprises to obtain cash, while the cash flow index of enterprises can reflect the utilization of resources, the capital structure of enterprises and the business prospects of enterprises. However, if the working capital of the enterprise is held too much, it will lead to the failure to play the role of time value of funds, the situation of insufficient investment will occur, and the profit of the enterprise will be reduced in the end. And if the enterprise holds too little working capital, it may affect the normal operation of the

enterprise. Especially in today's market economy, a large number of small and medium-sized enterprises have emerged. Such enterprises are often established for a short period of time and are generally in the position of followers or imitators in the industry. They have a weak voice in industry and markets, and they desperately need enough money to maintain normal production and operation. Therefore, it is necessary to strengthen the management of working capital of small and medium-sized enterprises and improve the efficiency of capital usage by strengthening the effectiveness of internal control of working capital of enterprises.

2. WORKING CAPITAL MANAGEMENT AND INTERNAL CONTROL EFFECTIVENESS OF SMALL AND MEDIUM-SIZED ENTERPRISES

2.1. Analysis of Relevant Concepts

All current assets and all current liabilities of small and medium-sized enterprises constitute the working capital of small and medium-sized enterprises. The working capital of small and medium-sized enterprises has some characteristics, such as strong liquidity of working capital, short turnover period, diversity of financing channels, volatility of amount, variability of form in business cycle, relatively small financial risk and so on. Therefore, when managing working capital, small and medium-sized enterprises should integrate current assets with current liabilities to enhance their ability to manage working capital.

Internal control plays an important role in achieving the business and strategic objectives of small and medium-sized enterprises. The internal control system of small and medium-sized enterprises is subdivided according to the business cycle, and the internal control of each business cycle is composed of many control points. Through the realization of the effectiveness of internal control in the design level and the internal control in the operation level, it provides a reasonable guarantee for the realization of the control goal. It can be seen that an effective working capital internal control system can help small and medium-sized enterprises to achieve the effective allocation of resources.

2.2. Analysis of the Impact of Internal Control Effectiveness on Working Capital Management

In the management of working capital of small and medium-sized enterprises, the main management points can be summarized as follows: The first point is to rationally determine the amount of working capital held by small and medium-sized enterprises and the ratio and coefficient of working capital through a comprehensive analysis of the actual situation of production and operation of small and medium-sized enterprises. To ensure that small and medium-sized enterprises can reasonably plan the demand for working capital, while realizing and maintaining the ability of small and medium-sized enterprises to repay short-term debt. The second point is to speed up the turnover of accounts receivable, inventory and other operating assets to enhance the liquidity of working capital of small and medium-sized enterprises, and then to promote small and medium-sized enterprises to make full use of existing assets to achieve more economic benefits. The third point is that small and medium-sized enterprises should focus on the cost of using working capital. Small and medium-sized enterprises should not only optimize and integrate resources in the course of operation, reduce operating costs, operating expenses and other expenses, but also reasonably determine the source and specific use of funds on the basis of considering the cost of funds. The fourth point is to make a budget plan to reasonably control the use of funds in order to realize the virtuous circle of funds and prevent anomalies and risks.

It can be seen from the above main points of working capital management that small and medium-sized enterprises should make rational allocation of the funds needed for production and operation, and realize the benign use and turnover of funds under the premise of ensuring

the safety of funds. In order to achieve this goal, it is very important to control the working capital of small and medium-sized enterprises at each main node.

This is because, on the one hand, an effective internal control system can prevent the use of funds and the safety of funds caused by blind expansion, wrong decision-making, financial fraud and so on by managing the environment and risks of small and medium-sized enterprises. On the other hand, current liabilities in the composition of working capital are often used as a common way of raising funds because of their relatively low cost of use. An effective internal control system can reduce the risk of small and medium-sized enterprises in the process of using current liabilities, thus effectively reducing the operating risk of enterprises.

3. ANALYSIS OF THE EXISTING PROBLEMS IN WORKING CAPITAL MANAGEMENT OF SMALL AND MEDIUM-SIZED ENTERPRISES

Through a survey of 120 small and medium-sized enterprises, the following problems in working capital management of small and medium-sized enterprises are summarized:

The first aspect is about the mobilization of working capital. About 60 percent of the small and medium-sized enterprises operators interviewed indicated that they had encountered difficulties in raising working capital and had experienced a lack of working capital. Whether or not to have sufficient working capital is an important prerequisite for the normal operation of enterprises, and all aspects of enterprises and the realization of business objectives can not be separated from the support of funds. However, many financial institutions and business partners can give limited financial support due to the influence of small and medium-sized enterprises' own economic strength, credit rating and other factors. For small and medium-sized enterprises in development, this limited financial support can not fully meet the needs of small and medium-sized enterprises in a specific period of time and a specific range of capital, so it is very likely that there will be a certain period of working capital shortage.

The second aspect is about the use of working capital for small and medium-sized enterprises. About 67 percent of the small and medium-sized enterprises managers surveyed believe that there are irregularities in the use of working capital in their enterprises. Compared with the industry leaders, small and medium-sized enterprises in the growth period often have imperfect business processes and related systems, and the decision-makers need to make adaptive adjustments to the new problems in the operation. In addition, growing small and medium-sized enterprises tend to attach importance to the increase of market share and profitability of enterprises, but will selectively ignore the standardization of business processes. At the same time, the growing small and medium-sized enterprises often have a greater demand for working capital, coupled with the lax awareness of some employees, which will eventually lead to waste of resources or loss of resources.

The third aspect is about the monitoring of working capital of small and medium-sized enterprises. About 53 percent of the interviewed small and medium-sized enterprises said that they did not have a special internal control system of working capital or internal audit system in their enterprises. The supervision in enterprises is not in place, there is a lack of effective risk warning mechanism in enterprises, and the measures to deal with risks are mostly made up after the event. It can be seen that the risk aversion ability of small and medium-sized enterprises to working capital is still too weak. On the one hand, under the influence of many factors, the managers of small and medium-sized enterprises often fail to manage the income, cost and expense in the operation. There may be a difference between the income realization and the actual recording time of the financial department, which will affect the accuracy of accounting information reflected in the accounting records. On the other hand, under the influence of business scale and business philosophy, small and medium-sized enterprises are not strict in the practical operation management of financial process. Some small and medium-

sized enterprises can not strictly enforce the preset financial rules and regulations, and often one employee assumes many responsibilities. All this will lead to the lack of mutual supervision and mutual restraint of the work of employees, so that working capital management fraud is not easy to be found, is not conducive to the growth of small and medium-sized enterprises. In addition, small and medium-sized enterprises often have the problems of not paying enough attention to the construction of corporate culture, insufficient investment in the follow-up training and education of employees, outdated knowledge and ideas of employees in working capital management, and imperfect incentive system of small and medium-sized enterprises. The existence of these problems will affect the enthusiasm of employees, and then reduce the efficiency of employees. Moreover, the lack of internal audit system and department in small and medium-sized enterprises also makes the non-standard behavior in enterprises can not be found in time, which is not conducive to the timely handling of the risk items faced by enterprises.

The fourth aspect is about the liquidity of working capital of small and medium-sized enterprises. About 55 percent of Small and medium-sized enterprises surveyed indicated that they had experienced a slow pace of liquidity as a result of product backlogs or uncollectible receivables. Small and medium-sized enterprises enter the industry for a relatively short time. Moreover, some small and medium-sized enterprises have not fully investigated the specific situation of market supply and demand and consumers' preferences, etc. They blindly expand production, have too much product inventory, but the sales volume is not optimistic, and the products are not timely converted into income, which leads to the shortage of working capital of these small and medium-sized enterprises. In the face of this situation, some small and medium-sized enterprises may choose to lose money to deal with inventory and other ways to withdraw funds, although these will bring certain and liquidity to enterprises, but there is no profit to speak of. In the long run, enterprises will face greater financial difficulties, and will aggravate the difficulty of business.

The fifth aspect is about the working capital budget of small and medium-sized enterprises. About 70 percent of the small and medium-sized enterprises surveyed said they did not have an exact working capital budget plan in the course of the operating, or even if they did, they did not operate according to the budget. The budget is carried out under the guidance of the strategic business objectives of the enterprise. Budget formulation and implementation, especially working capital budget, play an important role in the operation of small and medium-sized enterprises. The budget can help small and medium-sized enterprises to make reasonable arrangements for production and management and optimal allocation of resources in the future on the basis of historical data. Through the budget, it is clear whether the small and medium-sized enterprises have a shortage or surplus of funds, which is conducive to the enterprises to make the financing arrangements or the use of funds in advance, and to maximize the efficiency of the use of funds. If the enterprise lacks the link of budget formulation or execution, it will appear the blindness of operation and the inefficiency of the use of funds, which is unfavorable to the sustainable development of small and medium-sized enterprises.

4. SUGGESTIONS ON THE OPTIMIZATION OF ENTERPRISE WORKING CAPITAL MANAGEMENT FROM THE PERSPECTIVE OF INTERNAL CONTROL

Firstly, small and medium-sized enterprises should reasonably determine their working capital investment strategy and working capital financing strategy according to their operating characteristics. At the same time, the enterprise should maintain a good credit rating by strictly standardizing the operation of each link, and raise funds through multiple channels in a legal and compliant manner under the premise that the purpose of funds is clearly defined and

approved by relevant departments. In addition, small and medium-sized enterprises should adopt scientific methods to determine the amount of funds that should be reserved for the enterprise according to the scope of operation and management and the characteristics of capital management of the enterprise, in order to reduce the financing risk that the cash shortage may bring to the enterprise. Or small and medium-sized enterprises can accumulate capital and maintain good cooperative relations with banks, suppliers and so on in the process of development and growth, in order to obtain more financial support.

Secondly, small and medium-sized enterprises should strengthen their internal control over the use of working capital. On the basis of comprehensive consideration of the actual operating environment and the requirements of accounting practice standards, small and medium-sized enterprises should formulate the supervision and audit of working capital income and expenditure among departments and posts according to the requirements of internal control in terms of separation of responsibilities, authorization and approval. In particular, special management measures should be set up for the use of large funds, including demonstration, amount, usage, approval, verification, monitoring and reporting before the use of large funds. At the same time, small and medium-sized enterprises should make overall planning, centralized control of working capital, and reinvestment and utilization of idle funds in order to reduce unnecessary expenses and reduce the cost of using funds. In addition, small and medium-sized enterprises should also carry out dynamic management of working capital, such as the preparation of accounts by special personnel, and timely report to the superior supervisor of abnormal changes in funds.

Thirdly, small and medium-sized enterprises should establish and improve the internal monitoring system of working capital and enhance their ability to resist risks. Small and medium-sized enterprises should determine the main links involved in working capital according to the operating characteristics, and evaluate the possible risks, so as to formulate an internal control system of working capital to adapt to the actual situation of the enterprise, and supervise the flow of working capital in order to find and solve problems in time. In particular, projects with a greater impact on liquidity should be focused on. For example, small and medium-sized enterprises can add the internal control credit management module of accounts receivable, use modern accounting information technology to evaluate the credit risk of customers, and carry out risk warning to the formed accounts receivable. This helps to form a multi-sector linkage mechanism between sales, finance and so on, which can reduce the risk of uncollectible accounts receivable to some extent. At the same time, small and medium-sized enterprises should pay attention to the promotion of professional quality, professional ethics and other comprehensive qualities of employees in relevant functional departments. In addition, small and medium-sized enterprises can enhance the innovative practice ability of employees in various departments through training, further study and other ways, and train employees to form a loving and dedicated character and adapt to the new situation and new changes.

Fourthly, small and medium-sized enterprises should increase the internal control points of working capital liquidity and improve the utilization rate of funds. Under the internal control system, the relevant employees of the financial department should supervise the financial data related to working capital on a regular or irregular basis to judge whether it meets the expectations of the operation, and at the same time, it can also provide the basis for the relevant departments to reasonably carry out materials procurement, product production and other activities. On the one hand, small and medium-sized enterprises should accelerate collection without affecting sales, and reduce the proportion of accounts receivable, inventory and other items that have not yet become cash in current assets. Specifically, small and medium-sized enterprises can take cash discounts to customers to encourage customers to prepay, or through technological innovation and other ways to enhance the popularity of products in consumer groups, so as to achieve an increase in sales revenue. On the other hand, small and medium-

sized enterprises should combine their own business scale to carry out business planning. Small and medium-sized enterprises can control the payment link and optimize the proportion of current liabilities on the basis of early warning system to delay the time of capital expenditure as far as possible. For example, small and medium-sized enterprises can use commercial credit and bank credit flexibly to finance, or buy national debt, or rely on the securities market for capital operation. All these ways can help small and medium-sized enterprises achieve an increase in the amount of disposable funds.

Fifthly, small and medium-sized enterprises should use scientific methods to make the budget plan of working capital, so as to know the surplus or shortage of working capital, which can help small and medium-sized enterprises to prepare for financing in advance and make reasonable scheduling of resources. In order to improve the efficiency of working capital, the budget makers of small and medium-sized enterprises should plan the working capital budget according to the actual operation situation of the enterprise on the basis of considering the historical experience data of the enterprise. And the budget objectives should be refined. At the same time, in the process of budget execution, we should not only control the operating income and expenditure of the enterprise according to the budget plan, but also carry on the flexible management to a certain extent on the budget, in order to achieve the expected management goal.

5. CONCLUSION

To sum up, there are a large number of small and medium-sized enterprises, and the problem of working capital management is the key to their growth. And the effectiveness of internal control affects the reasonable allocation of working capital of small and medium-sized enterprises. Therefore, small and medium-sized enterprise operators should enhance the understanding of the role of internal control in the management of enterprise working capital. And in this issue, small and medium-sized enterprises should also make adaptive adjustment to their internal control system with the change of business status and business environment, so as to achieve sufficient and safe capital in business. Meanwhile, it also promotes the financial management of small and medium-sized enterprises to be more scientific and reasonable, so as to promote the sustainable development of enterprises.

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