

How important is stock statement Part II

In the last article we saw how ignorance about sanction conditions and stock statement created issues—this article takes you further in understanding more problems.

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The Credit department official took a lot of time to attend to me.

I was already in angry mood because the cheque was dishonoured and there were constant calls from the supplier concerned.

So when the official informed me that the drawing power was Rs.2,97,000/*-, I was not convinced.

I asked him the limit is Rs.10,00,000 and I have executed all the necessary documents.

The official showed me the sanction letter copy from the computer which said that the limit utilization is subject to drawing power as indicated from the information given in stock statement.

I informed him that even then the drawing power is

Stock as of 30.04	5,26,000
Debtors as of 30.04	2,96,000
Less creditors as of 30.04	4,26,000
Drawing Power	3,96,000

The official then showed me one more condition in the sanction letter which indicated as under

- While calculating drawing power, margin of 25% is to be maintained

The official further informed that every time the drawing power will be calculated with this formula in mind.

I was now beginning to appreciate the rules and thought there is no alternative but to follow it.

I requested the official to guide me in this matter. He then recalculated the drawing power as under :

Stock as of 30.04	5,26,000
Debtors as of 30.04	2,96,000
Gross Current Assets	8,22,000
Less creditors as of 30.04	4,26,000
Net Current Assets	3,96,000
Less 25% [own contribution / margin]	99,000
Drawing Power	2,97,000

Though I did not understand the concept of contribution / margin , I did understand the formula of calculating drawing power.

