Working Capital Management for Liquidity and Profitability

Posted on October 28, 2019

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Introduction

Working capital management refers to an organization's managerial accounting strategy that is modified to evaluate and utilize current assets and current liabilities to ensure the proper running of the organization (Shin & Soenen, 1998, p. 37-38). As it involves managing components such as inventories, cash, accounts receivables and those payables, the company can operate efficiently with the ability to fully satisfy upcoming short-term and long-term debts and other necessary expenses. Therefore, I believe working capital management is beneficial in ensuring that new organizations continue their operations sufficiently.

Importance Of Working Capital Management To Modern Organizations

The purpose of a positive and significant working capital investment in an organization is to ensure balance in getting adequate working capital to maintain its liquidity in meeting current and future economic requirements. It is essential to maintaining the financial health of a firm and its operational success (Shin & Soenen, 1998, p. 30-41).

Maintaining Higher Liquidity

Modern organizations have a substantial amount of liquid cash usually held up in working capital. Thus, managers running the firm efficiently could get an advantage from additional liquidity and have a lower dependency ratio on external financing (V & Afrifa, 2013, p. 453-455). Typically, this is more beneficial to smaller organizations because they have access to a limited external funding source. It in turn, enables the management to have a proper allocation of resources and improvement of its cash management.

Increased Value Of The Organization

Modern organizations with efficient working capital management often generate more free liquid cash flows, which promote higher business and enterprise value. Capital management enables many benefits for the organization based on the way it runs financially. Strategically, sales and discounts will be taken into advantage once capital managed. It increases the level of productivity with some series of productivity experts. Capital management also increases the value of the employees within any company.

Higher Profitability

A current business organization aims to increase its net profit value after a given end of the financial statement period. Therefore, according to specific research management of account payables and receivables is an excellent aspect of a firm's profitability level.

Higher Return On Capital Investment

Shareholders of modern organizations with lower working capital get high returns for cash invested because they enjoy higher returns on investment. It is always calculated for the purpose of assessing the way the company is efficient for capital allocation. The company controls capital through investments in this matter. It gives the reasonable sense that the company utilizes its funds for the generation of returns.

Improved Credit Solvency And Credit Profile

Sufficient working capital management will allow an organization to pay its short-term debts on time. These short-term obligations may be in the form of raw materials, wages, salaries and other miscellaneous expenses that are required for the operational activities of the firm (V & Afrifa, 2013, p. 460-451).

Ability To Counter Peak And Off-Peak Demands

Positive working capital management will increase the organization's survival chances when faced with a financial crisis. It will also help in case of production difficulty during instances of unexpected large orders of products. It all depends on the location of the person and even the local distributors in the region. A positive working capital administration will expand the association's survival chances when looked like a money related emergency. It will likewise help if there should be an occurrence of generation trouble amid occasions of sudden expansive requests for items. Everything relies upon the

area of the individual and even the neighborhood wholesalers in the locale. It is essential that one needs to search for the merchants around and have a correlation of the rates. Capital management becomes critical when one has to look for the distributors around and have a comparison of the standards.

Advantage Over Competitors

Modern organizations enjoy high technological advancements. It enables those with a higher supply chain to have significant sales volume on products sold at lower discounts. In that case, the firm will have a competitive advantage over similar organizations that have inefficient sourcing. Present-day associations appreciate great innovative progressions. It empowers those with a more top store network to have substantial deal volume on items sold at bringing down rebates. The firm will have the upper hand over similar associations that have wasteful sourcing.

Continuity In Production

Efficient working capital management will enable those new organizations that pay their suppliers on time to benefit from a continuous flow of critical raw materials (Padachi 2006, p. 45). It ensures production and manufacture of goods to be done uninterrupted therefore being able to deliver their finished products to customers on a regular basis. It will empower those advanced associations that compensate their providers on time to profit from a consistent stream of essential crude materials. It guarantees the creation and making of merchandise to be done continuously, subsequently having the capacity to convey their completed products to clients all the time.

An Organization Enjoys Favorable Financial Conditions

Modern organizations have a good connection and relationship with both trade partners and customers. It enables the firm to enjoy sufficient financing terms, for example, discount payments from banking services materials (Padachi 2006, p. 46-47). Therefore, working capital management is typically an accounting strategy focused on maintaining a balance between current assets and current liabilities. It uses ratios such as inventory turnover ratio, collection and capital ratio to know the areas that need to be focused (V & Afrifa, 2013 p. 466).

Conclusion

Capital management has an association with both exchange accomplices and clients. It empowers the firm to appreciate adequate financing terms, for instance, markdown installments from keeping

money services. In this way, active capital administration is ordinarily a bookkeeping methodology centered on keeping harmony between current resources and current liabilities. It utilizes proportions, for example, stock turnover proportion, accumulation, and capital proportion to knowing the territories that should be focused. A cutting-edge association requires a positive working capital administration concerning achieving its objectives set toward the finish of the budgetary proclamation time frame. It will empower it to succeed concerning money related returns. A modern organization requires positive working capital management regarding reaching its goals set at the end of the financial statement period.

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