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The Working Capital Different Types of Marketing

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ABSTRACT

The availability and cost of short-term funds are subject to market vagaries; thus, to the extent a firm uses long-term funds to finance investments in current assets, it precludes the possibility of non-availability of short-term funds for financing these assets. This improves the firm's liquidity position. However, increased usage of long-term sources of financing increases the firm's cost of financing, as long-term funds are normally costlier than short-term financing.

Although there are two different approaches to defining working capital, both concepts (GWC and NWC) are equally important in the management of working capital, as both are related. One is a measure of the level of current assets while the other measures the extent to which long-term sources of financing have been used to finance current assets.

Key words:- Investments, Position, Increased, Normally

Introduction

The quantum of working capital requirements is closely related to the nature of business of the firm, which in turn, is related to the operating cycle. For example, in a bakery unit, the requirement may be very low, as the operating cycle may hardly be for one or two days. Similarly, in case of an electric supply company, or a transport company, or a company that is still in a sellers' market, working capital requirements may be much less.

This is due to the shorter operating cycle, which is due to the fact that sales for such businesses is mainly on cash basis. As the result, the time lag between credit sales and collection of accounts receivables is cut down.1

As against this, a company manufacturing heavy machine tools or turbines will naturally be having a much longer operating cycle, as it would be selling mostly on credit, and consequently would require a much higher level of working capital. Also for such businesses, the value of raw material inventory, finished goods inventory, and credit sales is high due to the costly nature of products they deal in.

Seasonal industries, such as those manufacturing woolen clothes and blankets, geysers, etc., may require a much higher level of working capital in peak seasons and a much lower requirement during slack seasons. Table 21-1 demonstrates this relationship between current assets (working capital) and total assets for different industrial sectors. As can be seen in the table, the highest level of working capital/current assets is maintained by trading firms.2

The operating cycle, as shown in Figure 21-2, is the total duration taken to complete one cycle of operation, i.e., the time it takes to turn the investment of cash (for the purchase of raw materials and finished goods) back into procurement of inputs, transformation of inputs into outputs, and distribution (selling) of output.

Review of Literature

- **According to the Peeyush Nigam 2018-** Inventory com Inventory conversion period (ICP) The total time involved from the procurement of inputs till the conversion of inputs into outputs is called inventory conversion period. It consists of three successive stages-raw material conversion period, work-in-progress conversion period, and finished goods conversion period.

- **According to the R.P. Chaudhary 2020-** Inventory conversion period, receivables conversion period and payables deferral period are the three constituents of the operating cycle. converting credit sales into cash is called receivable conversion period. It depends on the credit period offered to customers and collection efforts of the firm. It is alternatively referred to as Accounts Receivable conversion period, Debtors conversion period, or Book Debts conversion period.3
- **According to the S.K. Goyal 2022-** Payables deferral period (PDP) The period for which the firm can defer its payments is referred to as payables deferred period. The longer the period, the lesser would be the firm's need to seek working capital financing from external sources.

Objectives of the Study

- Outsourcing of various processes (such as production, distribution, collection, etc.)
- Setting up vendor-managed inventories
- Reducing the collection float by using banks with accelerated clearing capabilities
- Bringing about technology upgradation to achieve reductions in the conversion period for in-house operations
- All these techniques are dealt with elaborately in Chapters 22 to 24, on WCM in suitable contexts.

Methodology

The importance of current assets lies in the fact that they fund the ongoing, day-to-day operations of firms. These assets determine the liquidity position of the firms. A high level of current assets denotes a high liquidity position, and vice versa. It is for this reason that lenders, particularly short-term lenders, expect the firm to have a high level of current assets.

Firms acquire fixed assets because of the future cash flows those assets are expected to generate. Likewise, firms invest in current assets because of the expected benefits derived from such assets.4

Data Analysis and Interpretation

There are many techniques available to evaluate capital expenditure proposals. All these techniques may not be useful in evaluation of all kinds of projects. One has to choose an

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appropriate criterion for acceptance or rejection. The selection may be based on the simplicity of criteria, data requirement, criticality of decision and effectiveness.

Do You Know Working Capital Different Types of Marketing

Table-1.1

Respondents	Working Capital	Marketing Capital
Male	75	65
Female	25	35
Total	100	100

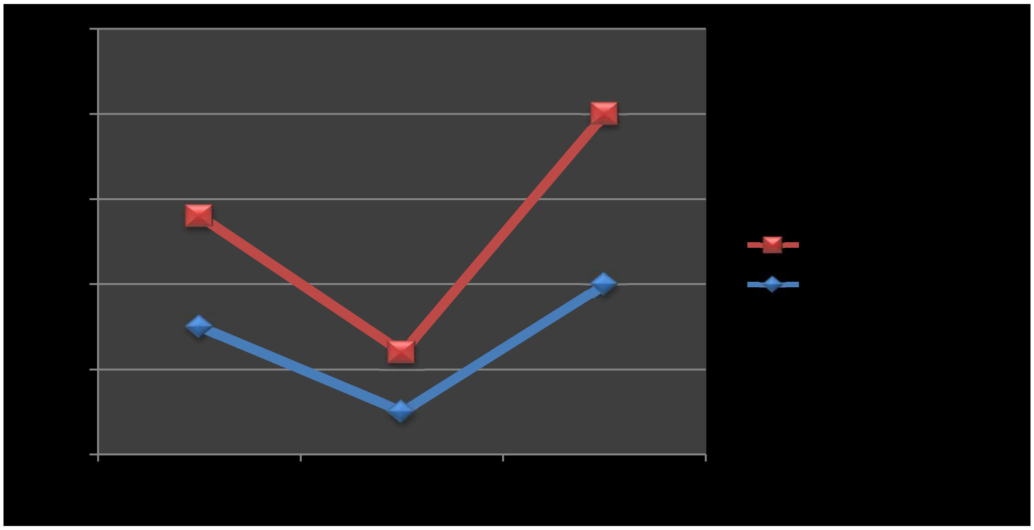

Table 1.1 Has displayed two respondents Male and Female Male has Working Capital 75 and Marketing Capital 65, Female Working Capitla 25 and Marketing Capital 35 show it applied percentage method.

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Findings of the Research

- As discussed, increased investment in current assets enhances.
- The liquidity position of the business and thus brings down its default risk.5
- However, such an investment leads to blockage of funds in assets that give zero/low yield and consequently affects the returns adversely.
- Thus, determining the optimal level of investment in current assets is essentially deciding about this risk-return tradeoff.

Conclusion

The financing of working capital is very crucial to management of working capital as it makes a significant impact on the firm's profitability and liquidity position. Theoretically, there can be three possible approaches to working capital financing: matching, conservative, and aggressive.

The mix of short-term and long-term sources of working capital financing varies in each approach, and consequently, the impact of each of the three approaches on the profitability and liquidity position

The working capital financing policy may have a significant impact on the profitability-Niquidity position of the firm. Theoretically, the policies of working capital financing can be categorized as: matching; conservative; and aggressive. of the business also varies.

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