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LIQUIDITY MANAGEMENT: AN OVERVIEW

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Abstract

Most of the Economies are generally faced with the problem of inefficient utilization of resources available to them. Capital is the scarcest productive resources in such economies and proper utilization of these resources promote the rate of growth, cuts down their cost of production and above all improves the efficiency of the productive system. Thus the study of liquidity behavior occupies an important place in financial management.

Keywords: *Liquidity Management, Inventory, Credit, Purchasing, Marketing, Royalty, Investment Policy.*

Introduction

Liquidity is the money used to make goods and attract sales. The lesser the liquidity used to attract sales, the higher is likely to be the return on investment. Liquidity management tells about the commercial and financial aspect of Inventory, Credit, Purchasing, Marketing, Royalty and Investment policy. Liquidity is considered to be the life blood of any business. It is the necessary evil of the business. No organization can survive in absence of liquidity. Lack of liquidity may lead a business to "Technical Insolvency" finally resulting in Liquidation. Excess of everything is harmful likewise excess of liquidity is also unhealthy for the business if not controlled it spreads like white ant and eats away the profits. Liquidity management is an integral part of the financial management. Liquidity of a firm is considered to be one of the most important tasks of financial managers.

Meaning of Liquidity Management

Liquidity management is the management for short term. It is the management of short-term assets and short-term liabilities and inters relationship that exists between them. The short-term assets refers to those assets which may be converted into cash within a year, as well as short term liabilities are those which are discharged within a year. According to James C. Van Horne, "Liquidity Management (Working Capital Management) is usually considered to involve the administration of current assets – namely, Cash, Marketable Securities, Receivables and Inventories and the administration of current liabilities." Liquidity management includes both establishing working capital policy as also the day to day control of cash, inventories, receivables, short term liabilities. Thus Liquidity Management is simply the "use of someone else's money at every chance you get, and, let no one use your money". Liquidity Management consists of the working capital requirement too.

Difference between Working Capital Management and Fixed Assets Management

S. No.	Working Capital Management*	Fixed Assets Management*
1	WCM* means managing current assets and current liabilities.	FAM* refers to management of Fixed assets to be amortized over a long period.
2	WCM makes utilization of production capacity possible.	FAM manages the productive capacity.
3	Current assets can be adjusted with sales fluctuations in the short run.	Quantum of fixed assets depends upon the sales target to be achieved.
4	Main items consists in WCM are cash, inventories, receivables, and all such items which loss their identity very quickly usually within a year	FAM covers assets to be used for a long duration and required to be retained in business over a period and give return over the life of the assets.

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