



RAMA UNIVERSITY

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FACULTY OF COMMERCE AND MANAGEMENT

COURSE: MBA III SEM..

SUBJECT: WORKING CAPITAL MANAGEMENT

SUBJECT CODE: MBAFM01

LECTURE: 9

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LECTURE-9



2.1 Objectives of Working Capital Management

The goal of working capital management is to manage a firm's current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. The interaction between current assets and current liabilities, therefore, is the main thing of the theory of working capital management.

Procurement of required amount of working capital and its effective utilization is the important function of working capital management. To ensure that the working capital financial plan serves as a guide to the future course of action of the financial department, the financial manager will keep in mind the following objectives which preparing the working capital financial plan.

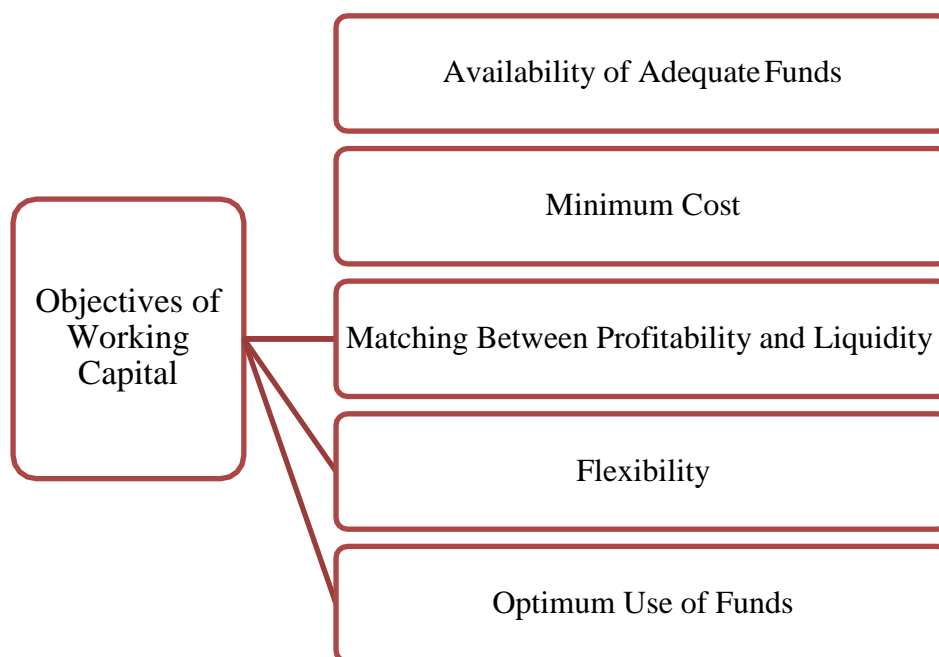


Figure 2.7: Objectives of Working Capital Management

- 1. Availability of Adequate Funds:** A sound working capital financial plan must ensure the supply of adequate amount of working capital needed by the business enterprises, both for current and future needs.
- 2. Minimum Cost:** The fund required by the firm should be made available at the lowest cost. It is made possible through planning- considering in advance various cost factors and trends of capital market and suggesting the best course of action.
- 3. Matching (Balance) Between Profitability and Liquidity:** A judicious balance between profitability and liquidity is one of the fundamental principles of successful finance planning. Profitability and liquidity are inversely related. The working capital financial plan must ensure sufficient amount of investment in those assets which are liquid cash and near-cash assets.
- 4. Flexibility:** The working capital financial plan should be dynamic in nature. In other words, it should provide sufficient scope for change and re-adjustment in the financial structure. Such changes become necessary due to changes in business conditions in future.
- 5. Optimum Use of Funds:** An important focal point of a financial working capital plan is the best use of the funds raised through various sources. All the possible efforts should be made that funds do not remain idle.