

Increasing liquidity (money flow) of a company essay example

[Business](#), [Customers](#)



Increasing liquidity(money flow) of a company

Liquidity is referred to as a business's capability to meet financial obligations as they come due or accrue. Improving liquidity means having a large working capital. In other words, the business cash flow should exceed all liabilities. These are some of the ways in which liquidity can be increased Accounts of receivables and payables should be well managed to ensure that liquidity is always improving. Both debtors and creditors have an impact on liquidity. A business should consistently review accounts receivable to make sure customers receive and pay bills on time thus increasing liquidity. Delays in sending bills, can severely slow up cash flow and spoil liquidity. By lowering total payments due or distribution of the payments with longer intervals between bills, the business can improve its liquidity.

Pricing of products or services should be strategized in a manner that it meets all costs. Prices should keep pace with the rising costs. Once prices are increased by businesses, customers tend to find other alternative businesses with cheaper prices. This makes businesses to hesitate from increasing their prices. Therefore businesses ensure that they set prices according to the market price to avoid making losses. Businesses avoid making losses as this will lead to low cash flow and creation of liquidity problems.

Additionally, policies should be settled to those that are of the best interest of a business thus making sure that it's advantageous in terms of liquidity.

Businesses review their business policies regularly to ascertain that they meet or cover all a business costs hence ensuring they make profits

(Dontigney, 2009). Price sensitive services should be regularly examined to

make sure you're getting the lowest obtainable rate.

Also, inventory management should be carried out often to ensure that a business is not overstocked or under stocked. Significant amounts of cash can be tied up from overstocking of inventory. Regular estimates of inventory or stock are important in business norms. Buying of more inventory than is needed since suppliers are offering huge discounts can tie up funds thus destroying business liquidity. Business offers regular check inventory for outdated or old stock as well as rescheduling forthcoming orders for using the inventory or selling them at cost to improve their liquidity. Also, Leasing or hiring considered generally expensive than purchasing. However these costs are sometimes acceptable by the benefits business get from cash flow. By leasing equipment, or other tools one need to enlarge his/her business to avoid tying up cash that eventually will increase or improve on liquidity.

In conclusion, when a business is highly liquid it means that it can meet obligations but mostly short term obligations that includes creditors, accruals and other payables in the same category. Businesses should be aware of that failure to meet obligations is that it may be declared insolvent or bankrupt in the long run it may under receivership and incase it persistently fail to meet obligation it may be liquidated or be shut down.

REFERENCE

Dontigney, E. (n. d). How to Increase Liquidity. Retrieved from <http://smallbusiness.chron.com/increase-liquidity-58024.html>

<https://assignbuster.com/increasing-liquidity-money-flow-of-a-company-essay-example/>