

# A STUDY OF WORKING CAPITAL MANAGEMENT IN SMALL SCALE INDUSTRIES IN BHOPAL, M.P.

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## **Abstract**

*Industrialization brings about social and economic changes that are essentially important for sustainable survival and development of human society in background of continuously increasing population size, shrinking agricultural lands, inadequacy of various natural resources and unemployment. Industrialization also leads to protection and development of agrarian society being the backbone of our country. to review the capital management of small-scale industries.*

**Keywords:** Importance of capital, Growth of Current Assets Structure of capital, Effectiveness of capital.

## **1. INTRODUCTION**

The role played by small business within the economic activity of Indian history since practically the beginning of the recorded time is critical. Out of the limited resources of knowledge available, the first ever known piece of writing on small business, reflecting how banks would lend money at interest, appeared some quite 4000 years ago. Since then, small businessmen have given countless hours within the creation of products and services to profit the customer and society.

### **1.1. Small Scale Industries on reflection**

The small-scale industrial sector, during the last 50 years, has made phenomenal progress in diverse activities despite the zooming death rate. It's contributing most to the Indian economy within the type of employment, contribution to national domestic product, exchange earning etc. As on March 1995, the quantity of small-scale units within the country stood at 19 Lacs within the organized sector, manufacturing about 7500 items, variety of them supported local crafts, skills and raw materials, while others were employing sophisticated technologies and arising products that compete even within the international markets. The whole employment within the world is over 437 Lacs persons as in 1990-91. With regard to employment, it stands next to the agricultural sector, which is that the most important employer within the economy.

### **1.2. Small Scale Industries in Post Independence Era**

After independence, several entrepreneurship development programs had been began to develop the skill, knowledge, and competence among the entrepreneur. In spite of various entrepreneurship development programmes launched by the govt. . . and non-government agencies, the entrepreneurs are encountering sort of problems for establishing economically viable small-scale industries like lack of physical facilities like, communication, transport and storage, lack of control measures, selection of products, non-availability of right kind of staple, lack of managerial competence, poor linkage with marketing bodies, lack of trained workers, low scale of production, improper communication with other developmental agencies. Long and complicated procedures to avail institutional help, lack of Govt. support and incentives, lack of sufficient finance and dealing capital and problems in procuring finance also as loan from different agencies (Shehrawat, 2006).

## **2. LITERATURE REVIEW**

Decisions concerning capital and short term financing are mentioned as capital management. These involve managing the connection between a firm's short-term assets and its short-term liabilities. The goal of capital management is to make sure that the firm is in a position to continue its operations which it's sufficient income to satisfy both maturing short-term debt and upcoming operational expenses (Chawla, 1987).

Moreover, capital is that the money went to make goods and attract sales. The less capital went to attract sales, the upper is probably going to be the return on investment. capital management is about the commercial and financial aspects of inventory, credit, purchasing, marketing, and royalty and investment policy. the upper the margin of profit, the lower is probably going to be the extent of capital engaged in creating and selling titles (Hampton, 1983).

Working capital management ensures a corporation has sufficient income so as to satisfy its short-term debt obligations and operating expenses implementing an efficient capital management system is a superb way for several companies to enhance their earnings. the 2 main aspects of capital management are ratio analysis and

management of individual components of capital . a couple of key performance ratios of a capital management system are the capital ratio, inventory turnover and therefore the collection ratio. Ratio analysis will lead management to spot areas of focus like inventory management, cash management, assets and payable management (Smith, 1975; Gitman, 1976).

Working capital management assumes greater significance in Small Scale Industrial (SSI) Units as most of those have weak financial base and limited accessibility to financial markets. In fact, efficient capital management decides the success or otherwise of a unit. The capital practices in small- scale industries are more owners centric than professionally managed (Reddy and Reddy, 2007)

As capital refers to the combination of sources from which the future funds required in business are raised. additionally to have capital, 'bank loan' is that the most prominent source of capital among the SSI units. the opposite important sources being 'trade credit' and 'friends and relatives'. 'Indigenous banking sector' is found to be more popular among the older units of partnership sort of organization with lower investment in plant and machinery (Chandra, 2002).

An idea of the importance of capital are often had from the very fact that the management of current assets and current liabilities occupies the most important portion of a financial manager's time. it's reliably estimated that the finance manager spends between 80% and 90% of his time in day-to-day financial decisions involving short term assets and liabilities. Although current assets vary from industry to industry, they constitute between 50% and 60% of the entire assets of producing concerns (Jones, 1978). Working capital management is especially vital for little firms to manage their current assets and current liabilities very carefully. a little firm might not have much investment in fixed assets and it can minimize its investment in fixed assets by renting or leasing plant and machinery , but there's no way it can avoid an investment in current assets like cash, accounts receivables and inventories. Therefore, current assets are particularly significant for the financial management of small firms.

Various studies on SSI in India have revealed either the inadequacy of capital or the inefficient management of capital among the units of SSI (NCAER, 1972; Sandesara, 1982; Biswal and Acharya, 1987; Kulshreshta and Jha, 1990; Prasad and Eresi, 1990; Balu, 1991; Manickavel, 1997; Kumar, 1999). Small companies focus only on areas of capital management where they expect to enhance marginal returns. A study in North England revealed that the firms which claimed to use the more sophisticated discounted income capital budgeting techniques, or which had been active in terms of reducing stock levels or the debtors' credit period, on the average attended be more active in respect of capital management practices (Peel and Wilson, 1996).

### 3. RESEARCH METHODOLOGY

3.1. Study Site this study was administered in Bhopal district that occupies the central a part of Madhya Pradesh. Bhopal is an ancient city that historically belongs to king BHOJPAL, the Great. The geographic area of the District is 2772 Square km. it's situated at 23.250 North latitudes and 77.420 East longitudes.

Bhopal is located in the central part of India, surrounded by lakes and hills, the district is famous for its natural beauty. The city has uneven elevation and has small hills within its boundaries. The prominent hills in Bhopal are Idgah hills and Shyamala hills in the northern region, Katara hills in southern region. City's geography has in it two lakes namely upper lake and lower lake.

Humid subtropical climate

Temperature 300 During the summer season, from March to June, the average rainy season ranges from June to September in the rainy season, beginning from October to January month. Winter season beginning October to January

In February-March 1818, Bhopal became a princely state in British India as a result of the Anglo-Bhopal treaty between the East India Company and Nawab Nazar Muhammad (Nawab of Bhopal during 1816-1819). Bhopal state included the present-day Bhopal, Raisen, and Sehore districts, and was part of the Central India Agency. In 1947, a new Ministry with a non-official majority was appointed by His Highness, but in 1948 His Highness expressed his desire to retain Bhopal as a separate unit. However, the agreement for merger was signed by the Ruler on April 30, 1949 and the State was taken over by the Union Government through a Chief Commissioner on June 1, 1949.

After the merger, Bhopal State was formed as a part 'C' State of Indian Union. Later as a consequence of the Reorganization of states on linguistic basis on 1st Nov. 1956, Bhopal became the part C State or Madhya Pradesh. The Bhopal district was carved out on 02-10-1972, which continues to be one of the 45 districts of the State. "The name (Bhopal) is popularly derived from Bhojpal or Bhoj's dam, the great dam which now holds up the Bhopal city lakes, and is said to have been built by a Minister of Raja Bhoj, the Parmar ruler of Dhar. The still greater work which formerly held up the Tal (lake) being attributed to this monarch himself. Initially the lake was quite big but as time has elapsed only a small portion of it has remained to be seen as "Bada Talab" i.e. the upper lake. Since long there is a famous saying about Bhopal lake, "Talon mein tal Bhopal tal, baki sab tallaiya".

### 3.2. Objectives

- to review the capital management and finance in respect of small scale industries.

### 3.3. Sampling

The coverage refers to the units covered and therefore the locations of their operations. An accurate census of the universe is that the most essential requirement for satisfactory sample enquiry. The record of SSI units maintained by DIC is predicated on registration of the units operational in Bhopal district. Most of the tiny industrial units are found to be operational without registration as registration of SSI is merely optional. Appropriate information couldn't be obtained about the entire number of such units and their locations; hence the study remains confined mainly to those small-scale industrial units which are registered under District Industries Centre (DIC).

A sample size of 32 units was 50% of the entire 64 functional units of the study area, since 18 units are reported closed their activities. The sample units selected out of the entire appearing within the list of DIC of the district were functional for quite 5 years at the time of present investigation. The homogeneous groups and numbers of small scale industries existing and chosen for the study are listed as under in table 1.

Table 1 Industry groups, numbers of existing and sample units in Bhopal.

Sl. No	Industry group	No. of Units	No. of Sample units
1	Fertilizer & Pesticide	14	7
2	Agriculture Implements mfg, fabrication & Service unit	15	7
3	food grain , Dal Processing & Warehousing	10	5
4	HDP bags	05	3
5	Tyre Retarding / Remolding	03	2
6	Re-refining of used oil	03	2
7	RCC Pipe	01	1
8	Craft paper & Others	13	5
	Total No. of Units	64	32

### 3.4. Data Analysis

Analysis of capital management short term financial position was administered for financial analysis of various categories of SSI units working within the district Bhopal of Madhya Pradesh chosen for this study. a complete of 32 SSI units as samples under 8 categories were investigated for his or her financial performance.

## 4. RESULTS AND DISCUSSION

The short-term creditors of a corporation like suppliers of products on credit and commercial banks providing short-term loans, are primarily curious about knowing the company's ability to satisfy its current or short-term obligations as and when these become due. The short-term obligations of a firm are often met only there are sufficient quick assets . Therefore, a firm must make sure that it doesn't suffer from lack of liquidity or the capacity to pay its current obligations. If a firm fails to satisfy such current obligations thanks to lack of excellent liquidity position, its goodwill within the market is probably going to be affected beyond repair. it'll end in a loss of creditor's confidence within the firm and should cause even closure of the firm. Even a really high degree of liquidity

is not good for a firm because such a situation represents unnecessarily excessive funds of the firm being tied-up in current assets. Therefore, it's vital to possess a correct balance in reference to the liquidity of the firm. Two sorts of ratios are often calculated for measuring short-term financial position or short-term solvency of a firm. Table 1 depicts Current Ratio of varied industries for consecutive three years. The ratio is predicted to be 1:1 by which it are often safely said that the economic unit is in a position to satisfy its current liabilities out of current assets. during these circumstances the margin of safety become almost nil. However lenders generally consider 2:1 to be a optimum current ratio. This provides a one hundred pc margin of safety and albeit half the present assets are realized into cash, current obligations are going to be fully met. This logic is predicated on the principle conservation. it's assumed that each one current obligations need to meet immediately. the present ratio of a corporation shows the power to pay short term creditors from current Assets. It represents the margin of safety, higher the ratio higher is that the margin of safety. But it's not always true higher ratios sometime indicate the unnecessarily blockage of funds in unrealizable current assets. Thus ratio 2:1 is taken into account satisfactory.

Table 1 Current Ratio of varied industries for consecutive three years

Category of industry
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Year	Fertilizer & Pesticide (A)	Agriculture Implements mfg fabrication & Service unit (B)	Food Grain Dal Processing & Warehousing (C)	HDP bags (D)	Tyre Retarding / Remolding (E)	Re-refining of used oil (F)	RCC Pipe (G)	Craft paper & Others (H)
2020-21	1.57	1.22	1.26	3.72	1.78	1.42	1.82	1.80
2021-22	1.38	1.18	1.30	3.75	2.14	1.78	1.82	1.35
2022-23	1.29	1.30	1.39	1.11	2.35	1.78	1.00	1.28

This ratio indicates the short term financial position of the corporate . It judges whether current assets are sufficient to satisfy the present liabilities. the corporate must be ready to meet its current obligation out of the present assets. It shouldn't depend on its future sources to pay its short term liabilities. this is often expressed because the current assets divided by the present liabilities. Current assets are those assets which are convertible into cash with during a year. the present ratios for all three years in category 'A' belonging to Fertilizer & Pesticide industries aren't up to the optimum level. there's a declining trend of the ratio. The ratios for other categories obtained for individual units have also shown more or less similar trends. this may require strict financial discipline.

On the opposite hand, category 'B' belonging to Agriculture Implements mfg fabrication & Service units have shown the similar declining trend for first two years and began showing improvement in third year but which is below the expected level of 2:1, within the third year. The category 'C' belonging to grain Dal Processing & Warehousing industry is showing a gradual improvement in its current ratio within the last three consecutive years but below the optimum level. The category 'D' belonging to HDP bags industries have show a better ratio as compared to optimum level of 2:1 in first two consecutive years which indicate misappropriate increase in current assets as compared to currant liabilities the ratio declined drastically within the third year thanks to higher level of liabilities, the rationale behind is got to be carefully examined and appropriate management measures required to be taken for improvement of the ratio.

The category 'E' belonging to Tyre Retarding / remolding industries have shown consistently improving satisfactory ratio. The individual units in majority also are performing well during this group. Whereas, category 'F' belonging to Re-refining of used oil industries below the specified level of 2:1 within the first year but current ratio in subsequent two years it's showing positive trend almost the optimum level. The category 'G' belonging to RCC Pipe industries performed almost the expected level of 2:1 in first two years but in third year it had been just 1:1 with no margin of safety .This was thanks to reduction within the amount of business of the merchandise of this category in Bhopal district .

The category 'H' belonging to Craft paper & Others industries the ratio was just almost the satisfactory level within the first year within the next two subsequent years IInd & III rd year the performance has declined to 1.35 and 1.28 respectively. It indicates that the margin of safety is gradually reducing during this industry. This category of industry may be a labour oriented one which generates employment to the utmost extent .In the recent past years the value of staple and labour has also increased substantially. This factor also affected the value of production and merchandise cost. As a results of which the things associated with the present ratio have also effected badly. Now the units need to consider efforts for improvement of current ratio within the following years.

Table 2 Quick Ratio of varied industries for consecutive three years

Category of industry								
Year	Fertilizer & Pesticide (A)	Agriculture Implements mfg fabrication & Service unit (B)	Food Grain Dal Processing & Warehousing (C)	HDP bags (D)	Tyre Retarding / Remolding (E)	Re-refining of used oil (F)	RCC Pipe (G)	Craft paper & Others (H)
2020-21	0.91	0.49	0.74	0.44	0.05	0.28	1.37	0.72
2021-22	0.63	0.40	0.68	0.34	0.02	0.35	1.37	0.67
2022-23	0.62	0.46	0.81	0.22	0.29	0.26	0.71	0.62

Table 2 depicts Quick Ratio of varied industries for consecutive three years. Quick ratio involves only those current assets, which liquidate immediately, ratio of 1:1 is right but 0.7 to 1 is taken into account satisfactory. this means the extent to which current liabilities are often paid without counting on the sale of inventory. Quick ratio is additionally referred to as appraisal ratio or liquid ratio, quick ratio is that the ready means of assessing a firm's liquidity position within the real sense. It shows very short term liquidity or capacity of the business to satisfy its obligation at short notice. quick assets are current assets less stock and prepaid expenses. These assets are called liquid because they will be converted into cash very shortly. it's expressed because the quick assets

divided by the present liabilities. Quick ratio assess the power of the business to satisfy the present liabilities without having await the manufacturing cycle to be completed and safe to require place for inflow of money . The quick ratio in category 'A' belonging to Fertilizer & Pesticide industries were satisfactory in first year as compared to second and third year. The liquidity position of the SSI units of this category had declined within the following two financial years. The group of this industry must revise the policies so on reach the specified state of 1:1 by investing the acceptable amount in marketable security in several forms. it's reasonable to mention that the majority small scale industries within the region dominated by agrarian rural society that suffer from shortage of funds and thus , of the become reason for slow trade cycle . Category 'B' belonging to Agriculture Implements mfg fabrication & Service unit has not reached to the specified level for all the three years. This appears unseasonable since the region being dominated by the agrarian society. it's therefore expected that the industry's performance as an entire should be up to the extent of desired level however it's also observed from the performance of individual unit within the industry that an equivalent is additionally for below the optimum level the rationale for this need further investigation. Category 'C' belonging grain Dal Processing & Warehousing industries has shown satisfactory quick ratio for all the three years whereas in category 'D' the fast ratio is unsatisfactory. The declining trend of the ratio has been observed during this industry altogether the category generally . The ratios obtained for individual units have also shown more or less similar trends. In category 'E' belonging to Tyre Retarding / Remolding is way below the specified level, need careful examination of reason behind it. category 'F' belonging to Re- refining of used oil have shown lesser quick ratios which require taking of corrective steps in strict financial discipline whereas category 'G' belonging to RCC Pipe industries has shown satisfactory quick ratios. In category 'H' belonging to Craft paper & others industries the fast ratios of first year is satisfactory but the subsequent two years it's gradually showing a downword trend. The causes of which required to be ascertained and recitation financial steps needed to be taken for its improvement.

Table 3 capital Turnover Ratio of varied industries for consecutive three years

Category of industry									
Year	Fertilizer & Pesticide (A)	Agriculture Implements mfg fabrication & Service unit (B)	Food Grain Dal Processing & Warehousing (C)	HDP bags (D)	Tyre Retarding / Remolding (E)	Re-refining of used oil (F)	RCC Pipe (G)	Craft paper & Others (H)	
2020-21	3.24	4.31	16.25	0.11	5.20	3.52	8.34	2.06	
2021-22	2.79	6.83	15.13	0.09	4.23	2.55	7.59	4.53	
2022-23	3.81	4.79	9.27	0.37	3.74	2.65	534.16	4.68	

Table 3 Show the capital Turnover ratios which employed to gauge the efficiency with which the firm manages and utilizes its assets. They indicate the speed with which assets are converted into sales. A measure of the amount of times a company's inventory is replaced during a given period. Turnover ratio is calculated as cost of products sold/ turnover divided by average inventory / capital during the period of time . A high turnover ratio may be a sign that the corporate is producing and selling its goods or services very quickly. This ratio tells how often a business inventory turnover during the course of the year. Because inventories are the smallest amount liquid sort of assets, a high inventory turnover ratio is usually positive. On the opposite hand, a strangely high ratio compared to the typical for the industry could means a business is losing sales due to in adequate stock available. The turnover ratios in category 'A' belonging to Fertilizer & Pesticide industries were apparently looking not satisfactory. The some situation may reflect in most other categories B, C, E, F of we analyze the trend.

We see a standard incontrovertible fact that there industries are mostly argo-based and being the agro based industry there sales are of seasonal nature. Since Bhopal district has a limited irrigation facilities and has one cropping pattern, the speed with which the assets are converted in to sale, is either slow or moderate. we will therefore safely consider these ratios as acceptable except in category 'D'. The ratios for category 'D' belonging to HDP bags industries are very poor altogether the three years and show the gradual decrease in sales. Category 'G' belonging to RCC Pipe industries indicate satisfactory ratios in first and second year but in third year the ratio obtained was quit unrealistic and high. Category 'H' belonging to Craft paper & others industries the ratio is low within the first year whereas in subsequent years the ratio noted improvement to the satisfactory levels.

Table 4 Inventory turnover Ratio of various industries for consecutive three years

Category of industry								
Year	Fertilizer & Pesticide	Agriculture Implements mfg	Food Grain Dal Processing & Warehousing	HDP bags (D)	Tyre Retarding / Remolding	Re-refining	RCC Pipe (G)	Craft paper

	(A)	fabrication & Service unit (B)	(C)		(E)	of used oil (F)		& Others (H)
2020-21	2.04	1.52	9.06	0.06	2.13	1.34	18.38	1.67
2021-22	1.45	1.74	7.48	0.05	2.45	1.56	7.25	2.25
2022-23	1.86	1.75	5.92	0.08	2.57	1.44	8.73	2.21

Table 4 depicts Inventory Turnover Ratio that shows the efficiency of the firm in selling the merchandise . It indicates the speed with which the stock is rotated into sales or the amount of times the stock is become sales during the year. the upper the ratio, the higher it's , since it indicates that stock is selling quickly. during a business where stock turnover ratio is high goods are often sold at an extended margin of profit and even then the profitability could also be quite high.

This ratio indicates the efficiency of the firm in selling its product, i.e. it indicates the amount of times the inventory has been given the form of ultimate sales during the year. it's calculated by dividing the value of products by the typical inventory. The turnover ratios of category 'C' belonging to grain Dal Processing & Warehousing industries and category 'G' belonging RCC Pipe industries were found to be satisfactory. Ratios in other categories are low.

Table 5 Debtors Turnover Ratio of various industries for consecutive three year

Category of industry								
Year	Fertilizer & Pesticide (A)	Agriculture Implements mfg fabrication & Service unit (B)	Food Grain Dal Processing & Warehousing (C)	HDP bags (D)	Tyre Retarding / Remolding (E)	Re-refining of used oil (F)	RCC Pipe (G)	Craft paper & Others (H)
2020-21	2.66	3.23	7.19	1.82	Nil	7.77	Nil	3.52
2021-22	2.08	4.67	9.80	1.80	Nil	9.81	Nil	3.69
2022-23	2.13	5.21	6.62	2.98	Nil	12.93	5.95	3.29

Table 5 depicts Debtors Turnover Ratio measures the amount of times assets was collected during the year. this is often also a measure of how well the corporate collects sales on credit from its customers, even as average collection period measures this in days.

This ratio is calculated by dividing sales by average debtors. A high debtor turnover ratio indicates a decent credit policy. Showing the corporate is successfully executing its credit policies and quickly turning its accounts receivables into cash.

A low or declining debtor turnover ratio indicates a set problem, a part of which can flow from to bad debts. A possible negative aspect to an increasing assets turnover is that the company could also be too strict in its credit policies and missing out on potential sales.

Category 'A' belonging to Fertilizer & Pesticide industries, category 'B' belonging Agriculture Implements mfg fabrication & Service unit industries, category 'C' grain Dal Processing & Warehousing industries, category 'F' belonging Re- refining of used oil industries and category 'H' belonging to Craft paper & Others industries have shown that the credit policy of the SSI units of industries belonging to those categories are satisfactory whereas, the category 'E' belonging to Tyre Retarding / Remolding industries indicated lack of credit attitude. Category 'F' belonging to RCC Pipe industries demonstrated lack of credit attitude in first and second year whereas within the third year, the ratio was noted to be satisfactory.

Table 6 Creditors turnover Ratio of various industries for consecutive three years

Category of industry								
Year	Fertilizer & Pesticide (A)	Agriculture Implements mfg fabrication & Service unit (B)	Food Grain Dal Processing & Warehousing (C)	HDP bags (D)	Tyre Retarding / Remolding (E)	Re-refining of used oil (F)	RCC Pipe (G)	Craft paper & Others (H)
2020-21	1.84	1.44	6.14	0.81	6.07	14.47	8.97	3.63
2021-22	1.36	1.94	14.85	0.94	8.94	16.13	7.01	2.38
2022-23	1.41	2.19	10.00	0.85	8.18	11.92	116.15	1.98

Table 6 depicts Creditors turnover ratio of net credit purchases to average trade creditors. it's also referred to as payables turnover ratio. it's on the pattern of debtor's turnover ratio. It indicates the speed with which the payments are made to the trade creditors. It establishes relationship between net credit annual purchases and average accounts payables. Accounts payables include trade creditors and bills payables. Average means opening plus closing balance divided by two. during this case also accounts payables' figure should be considered at gross value i.e. before deducting provision for discount on creditors (if any).

Shorter average payment period or higher payable turnover ratio may indicate less period of credit enjoyed by the business or business credit rating among suppliers isn't good and thus they are doing not allow reasonable period of credit. Category A, B and H have shown that their credit rating among suppliers weren't good whereas category D indicated better liquidity position resulting in better credit standing within the market. Categories C, E, F and G have also shown satisfactory credit turnover ratio.

## 5. CONCLUSION

Fertilizer & Pesticide, grain , Dal Processing, Tyre Retarding / Remolding, Re- refining of used oil, RCC Pipe, Craft paper & Others are Optimum level. But Agriculture Implements mfg , fabrication & Service unit, and ,HDP bags firm fails to satisfy such current obligations thanks to lack of excellent liquidity position, its goodwill within the market is probably going to be affected beyond repair. it'll end in a loss of creditor's confidence within the firm and should cause even closure of the firm. Even a really high degree of liquidity isn't good for a firm because such a situation represents unnecessarily excessive funds of the firm being tied-up in current assets. Therefore, it's vital to possess a correct balance in reference to the liquidity of the firm. Two sorts of ratios calculated for measuring short-term financial position or short-term solvency of a firm. Liquidity refers to the power of a priority to satisfy its current obligations as and when these become due.

The short-term obligations are met by realising amounts from current, floating or circulating assets. the present assets should either be liquid or near liquidity. These should be convertible into cash for paying obligations of short-term nature. The sufficiency or insufficiency of current assets should be assessed by comparing them with short-term (current) liabilities. If current assets pays off current liabilities, then liquidity position are going to be satisfactory. On the opposite hand, if current liabilities might not be easily met out of current assets then liquidity position are going to be bad. The bankers, suppliers of products and other short-term creditors have an interest within the liquidity of the priority . Funds are invested in various assets in business to form sales and earn profits. The efficiency with which assets are managed directly affect the quantity of sales. the higher the management of assets, the larger is that the amount of sales and therefore the profits. Activity ratios measure the efficiency or effectiveness with which a firm manages its resources or assets. These ratios also are called turnover ratios because they indicate the speed with which assets are converted or turned over into sales. for instance, inventory turnover ratio indicates the speed at which the funds invested in inventories are converted into sale. Depending upon the aim, variety of turnover ratios are often calculated, as debtors turnover, stock turnover, capital turnover, etc.

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