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SHORT-TERM FINANCIAL MANAGEMENT IN PROCUREMENT AND SALES OPERATIONS

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ABSTRACT
In business organizations, short-term financial management is crucial for maintaining liquidity and operational continuity. Because they affect inventory levels, receivables, payables, and cash flows, procurement and sales functions directly impact working capital requirements. This paper presents an organized study of short-term financial management techniques in sales and procurement operations. This study examines how efficient coordination between sales and procurement enhances liquidity and operational effectiveness by combining theoretical perspectives and real-world insights. The results indicate that maintaining financial stability requires the strategic use of supplier credit, effective receivables management, and optimal inventory planning. The study concludes that integrated short-term financial planning improves profitability and fortifies organizational resilience.

KEYWORDS: *Short-Term Financial Management, Working Capital, Procurement, Sales Management, Inventory Control, Receivables, Payables, Liquidity Management.*

1. INTRODUCTION

Financial stability in today's cutthroat business world depends on both long-term investments and efficient short-term financial management. To maintain continuous daily operations, short-term financial management focuses on managing current assets and liabilities. Procurement and sales are two crucial operational domains that directly impact short-term finances. Purchasing the goods and raw materials required for production is known as procurement, which results in trade payables or cash outflows. Sales activities generate revenue; however, when credit is given to clients, they frequently result in receivables. The company's working capital position is determined by the interaction between these two functions. Liquidity is preserved without obstructing excess funds in inventory or receivables when procurement and sales activities are effectively managed.

2. PROBLEM STATEMENT

Inadequate coordination between sales and procurement often results in liquidity pressure for organizations. While delayed receivable collection lowers the available cash, excessive inventory procurement raises holding costs and blocks funds. Instead of viewing sales and procurement as interrelated parts of working capital management, traditional financial control systems frequently treat them as separate operations. This leads to ineffective short-term resource management strategies. Therefore, it is necessary to investigate how integrated short-term financial management in sales and procurement can boost financial performance, lower operational risk, and increase liquidity.

3. RESEARCH OBJECTIVES AND QUESTIONS

3.1 Research Objectives

- To analyze the role of procurement in determining working capital requirements.
- To evaluate the impact of sales and receivables on liquidity.
- To study inventory and payables management in short-term financing.
- To examine how coordination between procurement and sales improves financial efficiency.

3.2 Research Questions

RQ1: How does procurement planning influence short-term financial stability?
RQ2: What is the relationship between receivables management and liquidity?
RQ3: How can integrated financial planning improve working-capital utilization?

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4. LITERATURE REVIEW

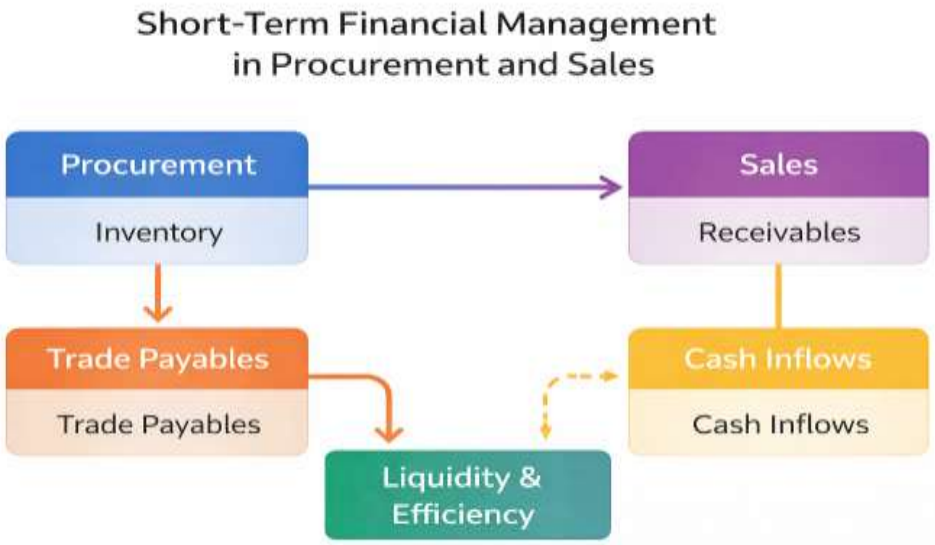
Current research has established as crucial to have an appropriate balance between liquidity & profitability (i.e. profitability) when it relates to managing working capital within a company. According to Pandey (2015), working capital management is extremely important, as it relates to managing assets (current) and liabilities (current) considered on a day-to-day basis, and ensuring smooth functioning of daily business transactions.

Several researchers have noted that poor management of inventory & receivables will cause increased working capital needs. Deloof (2003) found companies that invested heavily into their inventories but did not collect on their receivable in a timely manner experienced negative impacts on both liquidity of their business as well as overall financial performance. Companies that maintain high levels of inventory will incur increased holding costs and confiscate capital due to excess inventory being held. Poorly managed receivables will cause a reduction in the availability of working capital, as cash cannot be earned from receivables until the receivable is collected.

Furthermore, Shin and Soenen (1998) stated that effectively managing working capital better supports the profitability of a company. Their research indicated that companies with shorter cash conversion cycles tend to be more profitable since they are able to convert their investments in both inventory or receivables more quickly into cash. Thus, the findings of Shin and Soenen stress that effective collaboration between procurement, inventory management and sales functions are essential.

The procurement decisions contributed significantly to establishing working capital needs. Khan and Jain (2018) state that the procurement function influences both the levels of inventory and the amount of outstanding trade payables; therefore, both will directly impact a firm's ability to have available cash to pay its current obligations. Excessive procurement without an appropriate demand forecast may lead to an excess amount of inventory being carried on the balance sheet and create additional strains on cash flow. Conversely, insufficient procurement planning may create disruptions in the production process, which will ultimately affect sales.

Financial ratios are a common tool used to assess efficiency in short-term financial operations. Brigham and Houston (2019) provide that liquidity ratios (e.g., current ratio and quick ratio) may be utilized to evaluate whether or not a company has sufficient resources to meet its short-term obligations. Turnover ratios measure how quickly inventory is sold or accounts receivable are collected. These ratios can be valuable sources of information for evaluating how effectively an organization is utilizing its working capital resources.



5. CONCEPTUAL FRAMEWORK

Four main components interact to form the conceptual framework of short-term financial management in sales and procurement:

- Inventory (from purchases)
- Supplier credit, or trade payables
- Receivables (sales of credit)
- Financial Flow

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Payables and inventories are increased by procurement.

Sales receivables eventually result in cash inflows. Effective coordination increases liquidity and shortens the cash conversion cycles. According to the framework, balancing production schedules, sales collection periods, and procurement cycles is necessary for efficient, short-term financial management.

Components of Short-Term Financial Management in Procurement and Sales

Component	Financial Impact	Risk Involved	Management Focus
Inventory	Increases current assets and working capital requirement	Over-stocking, obsolescence, holding cost	Demand forecasting and stock optimization
Trade Payables	Reduces immediate cash outflow	Supplier dissatisfaction if delayed	Credit period negotiation and timely payment
Receivables	Increases sales revenue but delays cash inflow	Bad debts, delayed payments	Credit policy control and collection efficiency
Cash & Bank Balance	Ensures liquidity for daily operations	Idle funds or shortage of liquidity	Cash budgeting and monitoring

6. RESEARCH METHODOLOGY

Using secondary data sources such as financial statements, textbooks, and peer-reviewed journals, this study adopts a descriptive and analytical approach. Instead of gathering primary data, this methodology focuses on conceptual synthesis and practical interpretation. Short-term financial dynamics in sales and procurement are interpreted using ratio analysis and the principles of working capital.

7. RESULTS AND DISCUSSION

The above analysis suggests that working capital is significantly influenced by procurement activities through the inventory buildup.

Receivable management is essential for ensuring cash flow stability. Prompt payment of receivables improves liquidity, whereas delayed payments increase reliance on short-term debt.

Payable management improves liquidity if utilized optimally. However, delayed payments can damage supplier relationships.

The above research findings suggest that the management of purchase and sales activities minimizes financial inefficiencies and reduces the cash conversion cycle.

Comparative Analysis of Procurement and Sales Impact on Working Capital

Function	Increases	Decreases	Effect on Liquidity	Financial Strategy Required
Procurement	Inventory, Payables	Cash (if paid immediately)	May reduce liquidity temporarily	Planned purchasing and supplier credit management
Sales	Receivables	Inventory	Improves liquidity when collections are timely	Strong receivables management and follow-up

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Liquidity and Efficiency Indicators

Ratio	Formula	Purpose	Interpretation in Procurement & Sales Context
Current Ratio	Current Assets / Current Liabilities	Measures short-term solvency	Indicates ability to meet procurement-related obligations
Quick Ratio	(Current Assets – Inventory) / Current Liabilities	Measures immediate liquidity	Reflects ability to pay liabilities without selling inventory
Inventory Turnover	Cost of Goods Sold / Avg Inventory	Measures inventory efficiency	Higher ratio shows efficient procurement planning
Debtors Turnover	Net Credit Sales / Avg Receivables	Measures collection efficiency	Higher ratio indicates faster sales realization
Creditors Turnover	Net Credit Purchases / Avg Payables	Measures payment efficiency	Balanced ratio indicates healthy supplier relationship

8. MANAGERIAL AND FINANCIAL IMPLICATIONS

It is recommended that financial planning systems be implemented, where purchasing and sales decisions are integrated. Liquidity forecasts may benefit from real-time monitoring of inventory and receivables.

Managers must balance sales growth targets with credit risk management. Similarly, purchasing decisions must be aligned with sales forecasting to avoid overstocking.

Financial dashboards and working capital reviews can improve decision-making and reduce financial risk.

Managerial Implications of Short-Term Financial Decisions

Area	Poor Management Leads To	Effective Management Leads To
Inventory	Blocked funds and higher holding costs	Optimal stock levels and smooth production
Receivables	Cash flow shortage and bad debts	Improved liquidity and faster cash inflow
Payables	Supplier conflict and credit loss	Strong supplier relations and liquidity support
Cash Management	Operational delays	Financial stability and flexibility

9. LIMITATIONS AND FUTURE RESEARCH

9.1 Limitations

- This study relies on secondary data and conceptual analysis.
- However, it does not include empirical statistical validation.
- However, sector-specific variations have not been extensively examined.

9.2 Future Research Directions

- Empirical studies using primary financial data.
- Comparative sector-based analysis of working capital practices.
- Integration of digital financial tools into short-term management.

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Integrated Short-Term Financial Framework

Stage	Procurement Activity	Sales Activity	Financial Outcome
Stage 1	Purchase of Raw Materials	—	Increase in Inventory
Stage 2	Credit Purchase	—	Increase in Trade Payables
Stage 3	Production & Sale	Credit Sales	Increase in Receivables
Stage 4	Collection of Dues	Cash Inflow	Improved Liquidity
Stage 5	Payment to Suppliers	—	Stabilized Working Capital

10. CONCLUSION

Short-term financial management is vital for ensuring operational efficiency and sustainability. Procurement and sales are two interlinked activities that have a major impact on working capital.

Inventory management, timely collection of receivables, and efficient utilization of credit available from suppliers are key areas that help ensure financial stability and reduce risk for organizations that successfully integrate procurement and sales operations under a unified financial framework.

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