DPBS(PG) College, Anoopshahr

BCA II Semester

Subject: Financial Accounting & Management

Paper Code: 205

CASH MANAGEMENT

Cash is an important component of current assets and it is most essential for business operations. Cash is the basic input needed to keep the business running on a continuous basis. It is also the ultimate output expected to be realised by selling the service and product manufactured by the firm.

According to J. M. Keyens: "It is the cash which keeps a business going. Hence every enterprise has hold necessary cash for its existence".

According to P. V. Kulkarni: "Cash in the business enterprise may be compared to the blood of the human body; blood gives life and strength to the human body, and cash imparts life and strength to the business organisation".

According to I. M. Pandey: "The term cash includes coins, currency and cheques held by the firm and balances in its bank accounts. Sometimes near-cash items such as marketable securities or bank time-deposits are also included in cash. The basic characteristics of near cash assts is that they can readily be converted into cash. Generally, when a firm has excess cash, it invests it in marketable securities. This kind of investment contributes some profits to the firm." Cash is both the beginning and the end of the working capital cycle, i.e., cash, inventories, receivables and cash. While the management of all firms should strive hard to secure larger cash at the end of the working capital cycle than what had been invested in to it at its beginning, they must also make it a best possible minimum. This is required to optimally utilise the cash and to avoid the situation of idle cash balances. Its effective management is the key determinant of sufficient working capital management.

In a business firm, ultimately, a transaction results in either an inflow or an outflow of cash. In an efficiently managed business, static cash balance situation generally does not less. Cash shortage will disrupt the firm's manufacturing operation, while excessive cash will simply remain idle, without contributing anything towards the firm's profitability. Therefore, for its smooth running and maximum profitability proper and effective cash management in a business is of paramount importance.

J. M. Keynes, a prominent economist, pointed out three primary motives for holding cash.

1. The transaction motives: The transaction motive requires a firm hold cash to conduct its business in the ordinary course. The firms need cash primarily to make payment for purchases, wages, operating expenses, taxes, dividends etc. A firm needs a pool of cash because its receipts and payments are not perfectly synchronised. A pool of cash is also known as 'transaction balance'. A cash budget is often used to decide what the transaction balance should be.

2. The precautionary motive: The precautionary motive is to hold cash to meet any contingencies in future. It provides a cushion or buffer to withstand some unexpected emergency. The precautionary amount of cash depends upon the predictability of cash flows. If cash flows can be predicted with accuracy, less cash will be maintained against an emergency. On other hand, unpredicted the cash flows, the larger the need for such balances.

3. The speculative motive: The financial manager would like to take advantage of unexploited opportunities. Some reserve of money is always essential to enable the firm to take advantage of cash when such opportunities arise. The speculative motives helps to take advantage of an opportunity to purchase raw materials at a reduced price on payment of immediate cash. A chance to speculate on interest rate movements by buying securities when interest rates are expected to decline. Out of these three primary motives of holding cash balance, the two of them are important viz.: the **transaction motive and the precautionary motive**. Business firm normally do not speculate and need not have speculative balances. The firm must decide the quantum of transitions and precautionary balance to be held.

OBJECTIVES OF CASH MANAGEMENT

There are two basic objectives of cash management, that are as follows:

1) To meet the cash disbursement needs (payment schedule).

2) To minimise funds committed to cash balance

These are conflicting and mutually contradictory and the task of cash management is to reconcile them.

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In order to resolve the uncertainty about cash flow prediction and lack of synchronization between cash receipts and payments, the firm should develop some strategies for cash management. Efficient cash management requires proper cash planning, an organisation for managing receipts and disbursement, and an efficient control and review mechanism. The firm should evolve strategies regarding the following four function of cash management:

1) **Cash planning:-** Cash planning can help anticipate future cash flows and needs of the firm and reduces the possibility of idle cash balances and cash deficits. Cash planning is a technique for planning and controlling the use of cash. Cash plans are very crucial in developing the overall operating plans of the firm. Cash planning may be done on daily, weekly or monthly basis. The period and frequency of cash planning generally depends upon the size of the firm and philosophy of management. Cash budget should be prepared for this proposes. Cash budget is the most significant device to plan for and control the cash receipts and payments.
2) **Managing the cash flows:** The twin objectives in managing the cash flows are: cash inflows and cash outflows. The inflows of cash should be accelerated while, as far as possible, the out flow of the cash should be decelerated. A firm can conserve cash and reduce its requirements for cash balances, if it can speed up its cash collections. Cash collections can be accelerated by reducing the lay or gap between the time a customer pays his bills and the time the cheque is collected and funds become available for the firms use.
3) **Determining the optimum cash balance:** One of the primary responsibilities of the financial manager is to maintain a sound liquidity position of the firm so that dues may be settled in time. The test of liquidity is really the availability of cash to meet the firm's obligations when they become due. Thus, cash balance is maintained for day to day transactions and an additional amount may be maintained as a buffer or safety stock. The financial manager should determine the appropriate amount of cash balance.
4) **Investing Idle Cash:** The idle cash or precautionary cash should be properly and profitably invested. The firm should decide about the division of cash balances between marketable

securities and bank deposits. The management of the investment in marketable securities is an important financial management responsibility because of the close relationship between cash and marketable securities.