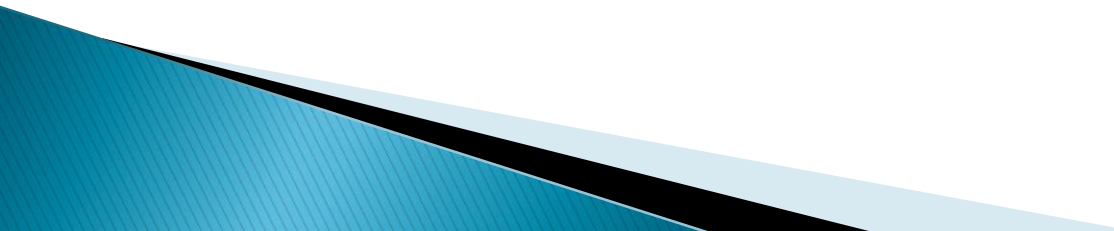


**SOS POLITICAL SCIENCE AND  
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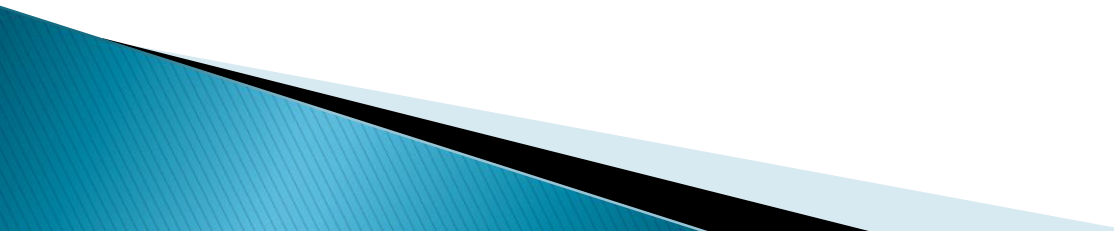
**SUBJECT NAME: WORKING  
CAPITAL MANAGEMENT**


**TOPIC NAME: MANAGEMENT OF CASH**

- ▶ Cash is the most liquid asset. Cash is common denominator to which all other current assets can be reduced because receivables and inventories get converted into cash. Cash is lifeblood of any firm needed to acquire supply resources, equipment and other assets used in generating the products and services. Marketable securities also come under near cash, serve as back pool of liquidity which provide quick cash when needed.
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# MANAGEMENT OF CASH:

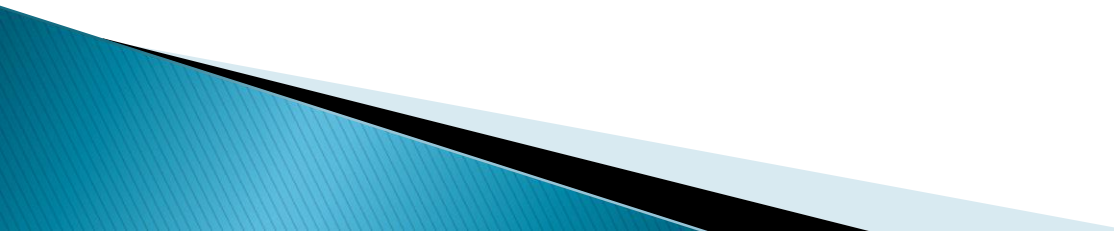
Although cash is only 1-3% of total current assets but its management is very important. Management of cash includes:

- ▶ Determination of optimum amount of cash required in the business.
  - ▶ To keep the cash balance at optimum level and investment of surplus cash in profitable manner.
  - ▶ Prompt collection of cash from receivables and efficient disbursement of cash.
- 

- ▶ It is the responsibility of the finance manager to provide adequate cash to the firm.
  - ▶ He has to also ensure that funds are also blocked and thus remains idle.
  - ▶ The term cash is understood in two ways:
    - In narrower sense it is considered only as coins, currency notes etc.
    - In broader term it also includes the assets that can be readily convertible in to cash like marketable securities, bank deposits etc.
- 

- ▶ For the purpose of cash management, the term cash not only includes coins, currency notes, cheques, bank draft, demand deposits with banks but also the near cash assets like marketable securities and Narrow Sense Broader Sense time deposits with bank Cash in Hand i.e. because they can readily currency notes & Cash & its converted into cash

# FEATURES OF CASH MANAGEMENT:

- ▶ Cash planning( estimate cash surplus/ deficit through cash budget)
  - ▶ Cash flows management( cash inflows& cash outflows)
  - ▶ Determination of optimum cash balance( cost of excess cash and danger of cash deficiency will match)
  - ▶ Investment of surplus cash( properly invested in marketable securities, to earn profits)
- 

# MOTIVES FOR HOLDING CASH:

In business cash is needed for the following motives:

1. **Transaction Motive** : i.e. to purchase raw material & to pay for operating expenses.
2. **Precautionary Motive** : to meet the future contingencies such as :
  - ▶ Floods, strikes and failures of important customers Bills may be presented for settlement earlier than expected
  - ▶ Unexpected slow down in collection of accounts receivable
  - ▶ Cancellation of some order for goods as the customer is not satisfied
  - ▶ Sharp increase in cost of raw materials

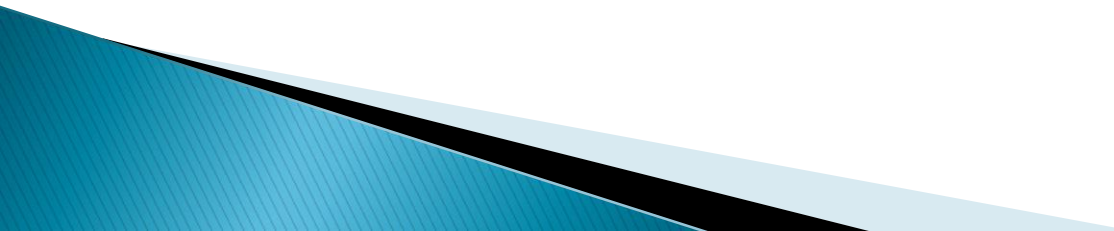
3. **Speculative Motive** : The speculative motive helps to take advantages of:

- ▶ An opportunity to purchase raw materials at a reduced price on payment of immediate cash.
- ▶ A change to speculate on interest rate movements by buying securities when interest rates are expected to decline.
- ▶ Delay purchase of raw materials on the anticipation of decline in prices.
- ▶ Make purchase at favorable prices.

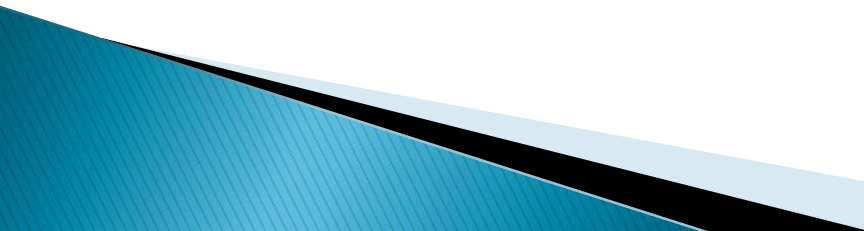
4. **Compensating Motive** : Yet another motive to hold cash balances is to compensate banks for providing certain services and loans.



# OBJECTIVES OF CASH MANAGEMENT:

- ▶ To maintain optimum cash balance.
  - ▶ To keep the optimum cash balance requirements at minimum level by prompt collection & late disbursement etc.
- 

# FACTORS TO BE CONSIDERED WHILE DETERMINING THE OPTIMUM CASH BALANCE:

- ▶ Synchronization of cash flows.
  - ▶ Cash shortage costs.
  - ▶ Excess cash balance costs.
  - ▶ Procurement and management costs.
  - ▶ Compensating balance.
  - ▶ Uncertainty.
  - ▶ Firm's capacity to borrow in emergence.
  - ▶ Efficiency of Management
- 

# IMPORTANCE OF CASH MANAGEMENT:

- ▶ Safeguard cash and investment assets.
  - ▶ Minimize the volume of idle balances.
  - ▶ Match the timing of cash inflows and cash outflows.
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