

A Study on Cash and Cash Management

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Abstract – "Cash, is always considered as the blood stream for every business as it gives vitality and strength". In the literal sense, cash management refers to management of cash so as to achieve the business aims. In such a context, the aims of a business can be integrated so as to bring about consistency between highest possible profitability and liquidity of the firm. In the recent times most of the business concerns are facing a severe problem due to the non availability and increased cost of procuring and holding of money. This study aims at understanding the concepts of cash and cash management along with its principles and functions for better working of the financial management of a business enterprise.

Key Words: Cash, Cash Management, Profitability and Liquidity.

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INTRODUCTION

Cash constitutes the smallest component of the total current assets of a firm, yet it is the most important one as it keeps the business going smoothly. Apart from cash being the at most liquid current assets it is the most common denominator where in all the current assets can be brought to because of the fact that the other current assets such as inventory and receivables will eventually get converted into cash. This is the major reason as to why the concept of cash management has gained a lot of significance today. The concept of cash and its management is a very old one and it has gained a lot of priority in the recent times because of the revolution that has occurred in the usual course of business and the never ending obstacles as well as the cost of borrowing.

RESEARCH METHODOLOGY

This study is based on Secondary data which is obtained from the National and International Research articles related to cash and cash management.

OBJECTIVES OF THE STUDY

1. To know the meaning of cash
2. To understand the concept of cash management
3. To know the various principles of cash management
4. To study the functions of cash management

MEANING OF CASH

It is important to understand that cash is the beginning as well as the end of the working capital cycle of a firm. Therefore in order to ensure that the business runs smoothly, it has to hold sufficient cash for its day to day operations and to sustain in the long run. More over the basis of business solvency is its consistent and a dynamic circulation of cash for all its business operations that occur in its normal course.

Never the less a company treats cash as its most powerful tool of profit. Like the other assets of a company. In the words of R.R. Bari, "Maintenance of surplus cash by a company unless there are special reasons for doing so, is regarded as a bad sign of cash management". Any business today focuses on making available the right amount of cash at the right place, at the right time, and at the right cost.

The term cash can be understood in two different senses. In the narrow sense, of all the business assets cash is the most important one although paper currency as well as the coins can be examined and controlled, bank checking accounts constitute the major portion of cash in majority of the entities, which denotes claims to money instead of the assets that are tangible in nature. But in the broader sense cash comprises of legal tender, Demand Deposits, bank drafts, Cheques in banks etc. Therefore from these extracts it can be said that in the narrow sense only the cash in hand and at bank comprises of cash while in the broader sense cash refers to the deposits in banks, bank

drafts, currency etc along with those included in the narrow sense.

MEANING OF CASH MANAGEMENT

It includes the management of marketable securities to because the modern definition of money includes cash in hand or at bank along with the marketable securities. In other words cash management can be defined as the ability of the management in identifying the various hurdles with respect to cash that it might have to face in the future course of action, coming up with suitable answers to curtail the various problems in case they arise, finally handing over such solutions to the able authorities for their execution. For every business there is always a dilemma when it has to choose between its profitability and liquidity, such a dilemma can be avoided with the help of cash management.

In establishing and equilibrium between profitability and liquidity cash management plays a very important role hence it is considered as an art in such assistance. By striking an equilibrium among liquidity and profitability a business can ensure a smooth functioning by reaching its objectives the most important aspect of cash is that, on its own it cannot generate any kind of income. It rather is the major tool for generating income from various sources and functions. Therefore the firm should maintain adequate amount of cash balance for the obvious cause of its solvency while such amount should always be minimum. Cash management consists of managing both cash inflows and outflows along with ensuring that the firm has an optimum cash balance at a given point of time.

It is important to understand the meaning of 'managing the cash and cash balance' as it does not only deals with the optimization of cash and the near cash items but also aims at giving a protective cover to the various commitments of the business. On the whole cash management basically deals with maintaining the right amount of cash in such a way that this amount is the lowest possible adequate amount to meet the various business obligations. i.e. cash management deals with making the greatest possible preparation so as to meet the planned and un expected demands with respect to the firms cash by minimizing the cash balances that are un productive and leading to the investment of excess cash temporarily in profitable avenues.

GENERAL PRINCIPLES OF CASH MANAGEMENT:

Certain general principles of cash management that increases the efficiency of a business has been recommended by Harry Gross. The application of such principles is to be tuned in accordance with the fluctuating business environment. These principles depicts the cause and effect that can be universally applied to the topic of cash management so as to

provide a scientific outlook with a high degree of knowledge and skill that places the concept of cash management in the group of art therefore it can be said that cash management is both science as well as an art like the other management subjects as it has a well defined principles that can be easily and skilfully adapted according to the requirements. The various principles of management are as below:

1. Contingency Cash Requirement

There may arise certain circumstances, which drop beyond the forecast of the management. These constitute unforeseen contingencies, which are very difficult to be provided for in the normal progress of the business. Such contingencies continuously demand for special cash requirements that was not estimated and provided for in the cash budget. Denials of wholesale product, large sum of bad debts, strikes, lockouts etc. are a few among such contingencies. Only a prior experience and investigation of other like companies prove helpful as a customary practice. A practical procedure is to guard the business from such calamities like bad-debt losses, fire etc. by way of insurance coverage.

2. Availability of External Cash

Another factor that is of abundant importance to the cash management is the availability of funds from external sources. These resources aid in providing credit facility to the firm, which materialized the firm's aims of holding minimum cash balance. When the firm acquires funds from the various external sources such as share holders government agencies banks etc there will be reductions in the cash reserves.

3. Determinable Variations of Cash Requirements

A realistic portion of funds, in the form of cash is essential to be kept aside to overcome the period anticipated as the one of cash deficit. This period can either be short and temporary or last for a longer period of time. Normal and regular disbursement of cash leads to small declines in the cash balance at periodic intervals. Making this payment to various employees on different days of a week can equalize such reductions. Another method for balancing the level of cash is to schedule cash disbursements to creditors during that period when the accounts receivables collected sums to a large amount but without putting the goodwill at stake.

4. Minimizing of Cash Disbursements

The ultimate advantage derived by maximizing the cash receipts is minimizing the cash payments. By way of stopping the fraudulent practices, making staggered payments to creditors and for pay rolls, serving time draft to creditors of huge amount etc it

is possible to bring the cash disbursements under control.

5. Maximizing the Cash Receipts

Optimum usage of available cash receipts will be the target of every financial manager cash requirements of an entity can be minimized if the cash receipts are tackled prudently. Therefore it is necessary to estimate the comparative cost of allowance of cash discounts to the customers and the policies of charging interest for borrowing on a regular basis so as to decide between the alternatives for a particular period of time so as to maximize the amount of cash receipt.

6. Maximizing Utilization of Cash

Despite the fact that excess of cash is a luxury for an entity, yet money is costly. In order to achieve the aim of minimizing the cash payments and maximizing the cash receipts, appropriate and optimum usage of available cash is necessary.

FUNCTIONS OF CASH MANAGEMENT:

"Cash management refers to holding optimum cash balance by minimizing the unproductive cash balance, parking the same in short term investments and also make proper preparations in order to face the future uncertainties on the entity's cash. It is important that cash management should always aim to reduce the risk of being unable to full fill the financial obligations of the company. Such motives and objectives of cash management are largely dependent on the proper and efficient functioning of cash management further the below mentioned points helps to understand the various functions of cash managements

1. Managing Cash Flows

This function explains the act of managing correctly the cash inflows that is the flow of cash into the business and cash outflow that is cash going out of the business. In order to ensure better management of cash it is necessary to expedite collections improving control over the payments, avoiding needless inventories etc. therefore a firm can rightly manage its cash flows only if it minimizes the cash outflow and accelerates the cash inflows.

2. Cash Planning

Good planning is the primary foundation of attaining success. For any management decision, planning is the primary requirement. "Planning is fundamentally an intellectual process, a pre-disposition to do things in a systematic way, to consider before acting and to act in the light of actualities rather than of a guess." Cash planning is a technique, which includes planning for and controlling of cash. It is a

management process of predicting the future need of cash, its available resources and several uses for a specified period. Cash planning, thus, deals at length with formulation of required cash policies and procedures in order to carry on business constantly and on sound lines. A good cash planning targets at providing cash not only for regular but also for irregular and abnormal needs.

3. Optimizing the Cash Level

Maintaining the proper cash level that is a sound liquidity position should be the focus of every financial manager. The various functions such as planning controlling and managing cash flows of a finance manager should aim at maintaining an optimum cash balance. The primary aim of ensuring an optimum cash balance is to resolve all the financial obligations in time and to meet the various requirements of cash. Establishment of equilibrium between risk and expected profits are also related to the optimum level of cash to be maintained by a firm.

4. Controlling the Cash Flows

Cash planning will unavoidably differ with the actual results obtained because forecasting is based on a few assumptions and it is not an exact science due to this control of cash will become an in evitable part of cash management. It plays an important role in increasing the availability of cash in the enterprise due to which cash controlling becomes an integral part of the business. As it is clear that when the speed of cash flow cycle is greater, the number of times a business can transform its stock into cash is also greater and so the lesser would be the requirement of the cash for financing the business at a desired volume for a particular period of time. Every firm is usually in procession of a particular quantum of hidden cash, which decreases the cash requirements when found out by such a firm.

5. Investing Idle Cash

The excess amount of cash inflows over the cash outflows refers to surplus cash or idle cash which will not usually have any other any particular operations or any other purpose to solve currently. A firm should hold right quantum of cash for facing the uncertainties and to sustain in the market for a long time along with developing the good will of bankers.

Basic Aspects of cash management

There are 4 basic aspects of cash management. They are:

- a) Cash planning or forecasting

- b) Cash control
- c) Investing surplus cash
- d) Determine optimum cash balance

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