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B.C.A 2 Semester
Lecture - 21
TOPIC → Cash Management
unit → VI

Introduction

Cash Management refers to management of Cash balance and the bank balance Including the Short term deposits. The Cash is obviously the most Important Current asset, as it is the most liquid and Can be used to make immediate payments. The term 'Cash' may be used in two different ways.

1.) it may Include currency, cheques, demand drafts, deposits held by a firm i.e, pure Cash or generally accepted cash equivalents.

2.) In a broader Sense, it also includes near Cash assets Such as marketable Securities and Short-term deposits with deposits.

For Cash management purpose, the term 'Cash' is used in this broader Sense i.e, it Covers Cash, Cash equivalents and those assets which are Immediately Convertible into Cash

Meaning of Cash

Cash is one of the Current assets of a business. it is needed at all times to keep the business going. A business Concern Should always keep Sufficient Cash for meeting its Obligation. Any Shortage of Cash will hamper the operation of Concern and any Excess of it will be unproductive.

Thus, Cash is the balancing figure between debtors, Stock and Creditors. without adequate Cash to meet working Capital demands, it is impossible to extend credit, order Stock or pay Creditors.

Nature of Cash

1) Idle asset
2) Unproductive assets.
3) Cash Shortage harms Cost

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4.) Minimum Cash Balance

Motives for holding Cast.

The firms need to hold Cash may be attributed to the following three motives.

1.) The transactions motive
2.) The precautionary motive
3.) The Speculative motive
4.) Compensation motive | Compensating balances.

Factors Determining Cash Needs

The amount of Cash for transaction requirements is predictable and depends upon a variety of factors which are as follows:-

→ Credit position of the firm

The Credit position influences the amount of Cash required in two distinct ways:-

1.) if a firm's Credit position is Sound it is not necessary to Carry a large Cash reserve for emergencies.

2.) if a firm finance its Inventory requirement with trade credit. its Cash requirements are Considerably Smaller, Such the firm Can Synchronize the Credit term it gives to its Customers with the terms it receives.

5.2 Status of Firm's Receivable

The amount of time required for a firm to convert its receivable into cash also affects the amount of cash needed and of course, reduces total working capital employed, in other words, the longer the credit terms, the slower the turn over. When flow out is not synchronized with turn over, a firm must carry amounts of cash relatively larger than would otherwise be required.

5.3 Status of Firm's Inventory Account

The status of a firm's inventory account also affects the amount of cash tied up at any one time.

5.4 Nature of Business Enterprise

The nature of a firm's demand definitely affects the volume of cash required. To illustrate, a firm whose demand is volatile, needs a relatively larger cash reserve than one whose demand is stable. Public utility firms exhibit stable demand where as firms that deal with high fashion merchandize or goods that tend to be "faddish" are subject to high degrees of volatility.

5.5 Cost of Cash Balance

Another factor to be considered while determining the minimum cash balance is the cost of maintaining excess cash or of meeting shortages of cash. There is always an opportunity cost of maintaining excessive cash balance. If a firm is maintaining excess cash, then it is missing the opportunities of investing these funds in a profitable way.

6. Meaning of Cash Management

Cash Management refers to management of cash balance and the bank balance including the short terms deposits. For cash management purposes, the term cash is used in this broader sense, *i.e.*, it covers cash, cash equivalents and those assets which are immediately convertible into cash.

A financial manager is required to manage the cash flows arising out of the operations of the firm. Cash management, deals with optimization of cash as an asset and for this purpose the financial manager has to take various decisions from time to time. He has to deal as the cash flows director of the firm. Even if, a firm is highly profitable, its cash in flows may not exactly match the cash outflows. He has to manipulate and synchronize the two for the advantage of the firm by investing excess cash if any as well as arranging funds to cover the deficiency.