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 **UNIT- Ѵ MANAGEMENT OF CASH AND MARKETABLE SECURITIES**

The main objective of working capital management is the efficient management of each components of current assets. For this purpose optimum level of investment in each of the current assets is determined. Cash is the most liquid current asset. All other current assets such as receivable and inventory ultimately got converted into cash. Therefore, business should keep optimal cash balance at every point of time. It should be neither in excess nor short of its requirements.

The term Management of cash includes :

1. Determination of optimum amount of cash required in the business.
2. Keep the cash balance at optimum level and investment of surplus cash in profitable manner.
3. Prompt collection of cash from receivables (i.e, from debtors and bill receivables) and efficient disbursement of cash.

 **MEANING** **OF** **CASH**

For the purpose of cash management, the term cash not only includes coins, currency notes, cheques, bank drafts, demand deposits with bank but also the ‘near-cash assets’ like marketable securities and time deposits with banks because they can be readily converted into cash. For the purpose of cash management, near-cash assets are also included under cash because surplus cash is required to be invested in near-cash assets for the time being.

 **MOTIVES OF HOLDING CASH**

In every business assets are kept because they generate profit. But cash is an asset which does not generate any profit itself, yet in every business sufficient cash balance is maintained. There are four primary motives or causes for maintaining cash balances:

1. Transaction Motive
2. PrecautionaryMotive
3. Speculative Motive
4. CompensatingMotive
5. **TRANSACTION MOTIVE :** A number of transactions take place in every business. Some transactions result in cash outflow such as payment for purchases, wages, operating expenses, financial charges like interest, taxes, dividend etc. Similarly , some transactions result in cash inflows such as receipt from sales, receipt from investments, other incomes etc. but the cash inflows and cash outflows do not perfectly match with each other. At times, inflows exceed outflows while, at other times outflows exceed inflows. To meet the shortage of cash in situation when cash outflows exceed cash inflows the business must have an adequate cash balances.
6. **PRECAUTIONARY MOTIVE:** In every business, some cash balance is kept as a precautionary measure to meet any unexpected contingency. These contingency may be :
7. Floods, strikes and failures of important customer.
8. Unexpected slow down in collection from debtors.
9. Cancellations of orders from customers.
10. Sharp increase in prices of raw-materials.
11. Increase in operating costs etc.

Therefore, a firm should maintain larger cash balance than required for day to day transactions in order to avoid any unforeseen situation arising because of insufficient cash.

1. **SPECULATIVE MOTIVE:**  Cash may be held for speculative purposes in order to take advantage of potential profit making situations. A firm may come across an unexpected opportunity to make profit, which is not usually available in normal business routine. Some cash balance may be kept to take advantage of these situations. These opportunities are:
2. Opportunity to purchase raw material when their prices are low.
3. Opportunity to purchase securities when prices are low.
4. Opportunity to purchase other assets for the business when the prices are low.

Therefore, the speculative motive provides a firm with sufficient liquidity to take advantage of unexpected profitable opportunities that may suddenly appear .

**(D)COMPENSATING MOTIVE:** Commercial banks require that in every account, there should always be a minimum cash balance. This minimum cash balance may vary from Rs 5,000 to Rs 10,000. This amount remains as a permanent balance with the bank as long as the current account is operative. This minimum balance is generally not allowed by the bank to be used for transactions purposes and therefore, it becomes a sort of investment by the firm in the bank. In order to avail the convenience of current account, the minimum ash balance must be maintained by the bank and this provides the compensation motive for holding cash.

Out of different motives, the transaction motive is the most obvious and is found in every firm. Even the precautionary motive is common and firm maintains cash balance for both the transactions and precautionary. However, the speculative motive is subjective one and may differ from one firm to another. Generally, the speculative motive is the least important component of a firm’s preference for liquidity. The compensating motive may be a compulsion and the firm may not have many options.

The cash held for transaction motive is necessary, the cash held for precautionary motive provides margin of safety, but holding of cash does not generate any explicit monetary return, rather it involves a cost.

 **OBJECTIVES OF CASH MANAGEMENT**

The financial manager must know as to why the cash management is a necessity. The financial manager has to strike an acceptable balance between holding too much or too little cash. This is the focal point of cash risk-return trade off. The cash management strategies are generally built around two goals:

1. To provide cash needed to meet the obligations
2. To minimize the idle cash held by the firm.
3. **MEETING THE CASH OUTFLOW:**  The primary objective of cash management is to ensure the cash outflows as and when required. To determine the optimum cash balance required in the business and to maintain the cash balance at that level. It is necessary to bring the equilibrium between liquidity and profitability of business to determine the optimum cash balance. The firm should be able to make the payments at different point of time without any liquidity problem. It mean that the firm should have sufficient cash to meet the payment schedules and disbursement needs. It will help the firm in:
4. avoiding the chances of default in meeting financial obligations, otherwise the goodwill of the firm is adversely affected.
5. Availing the opportunities of getting cash discounts by giving early or prompt payments.
6. Meeting unexpected cash outflows without much problems.
7. It prevents insolvency of the business arising due to the non payment of its obligations on time.
8. It helps in fostering good relations with creditors by making prompt payment to them.
9. **OPTIMIZING THE CASH BALANCE REQUIREMENT AT MINIMUM LEVEL:** Investment in idle cash balance must be reduced to minimum. This objective of cash management is based on the idea that unused asset earns no income for the firm. The funds locked up in cash balance is a dead investment and has no earning. Cash is a non-earning asset. The objective is achieved by managing the cash flows in such a manner that cash is collected promptly and liabilities are paid in time. The purpose of prompt cash collection is to reduce the time gaps between sale of goods and its collections.

**FACTORS AFFECTING THE CASH NEEDS AND LEVEL OF CASH**

The factors affecting or determining the cash requirements of a business are as follows:

**(a) CASH INFLOWS AND CASH OUTFLOWS:** Every firm has to maintain cash balance because its expected inflows and outflows are not always synchronized. The timings of the cash inflows may not always match with the timings of the outflows. Therefore, a cash balance is required to fill up the gap arising out of difference in timings and quantum of inflows and outflows. Forecasting of cash inflows and outflows is done through cash budget.

**(b) 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.

1. **CASH CYCLE:** The term of cash cycle refers to the length of the time between the purchase of raw material and the receipt of sales revenue. So, the cash cycle refers to the time that elapses from the point of purchasing the raw material and receipt of sales. Different patterns of cash cycles and cash flows may be dependent upon the nature of the business.
2. **CASH MANAGEMENT COSTS:** Cash management also involves some costs such as salary, clerical expenses etc. of cash management staff. Cash need should be determined after considering this factor also.
3. **UNCERTAINITY:** Cash flows can never be predicted with complete accuracy and there is always some uncertainity in their forcast such as unexpected delay in collection from debtors. Firm must always keep some additional cash to meet these uncertainties.
4. **ATTITUDE OF MANAGEMENT:** The attitude of management towards liquidity and profitability affects the level of cash. If the management attaches more significance to liquidity than profitability, the level of cash will be high. On the contrary, if it gives more importance to profitability instead of cash, the level of cash will be low.