Management of Cash

Cash management is basically concerned with the optimum utilization of available cash by justifying the position of liquidity and profitability in any business firm. The concern should be in a position to arrange and ensure the availability of cash as per the requirement of the concern during the particular period. The cash must be available in sufficient quantity which should not be more or less than the requirement of the business firm. Thus, when cash requirement is forecasted or planned in such a manner, it is called cash management.

So far the requirement of cash is concerned, we know that every firm needs to hold cash for meeting three motives such as Transaction motive, Precautionary motive and Speculative motive.

Cash is generally held by the firm to meet day to day expenditure such as purchase of raw materials, payment of wages, salaries and other operating expenses which is known as transaction motive.

The precautionary motive is the need to hold cash to meet contingencies in future.

The speculative motive relates to the holding of cash for investing in profit making opportunities as and when they arise.

There are so many factors which affect the level of cash, such as, Nature of business, position of accounts receivable, liquidity position of the market ,operating and cash cycle, market conditions, management's attitude regarding procurement, control of cash disbursement etc.

As we know that the objectives of cash management is to trade off between liquidity and profitability of Business firm. In order to maintain this equilibrium, the optimum level of cash requirement needs to be maintained where we should follow these four steps in cash management:

(1)Cash planning: It serves as useful device for maintaining optimum level of cash because it anticipates period wise availability of cash resources as well as the requirement of cash. It is going to be possible with the help of cash budget.

(2)Managing cash inflows: This is basically concerned with a speedy and timely recovery of receivables and other collections during the period

(3)Managing cash outflows: outflows of cash also require proper control and scheduling. The best planning should be ,if the timing of impending cash outflows can be matched with the timings of cash inflows .Timely payment and payment on the due date goes to help in maintaining existing business relationship as well as the goodwill and image of the firm.

(4)Investing surplus cash: Investment of surplus cash are mostly for short term normally for 3 to 6 months but invariably for less than a year. Surplus cash may be the result of seasonal variations or cyclical oscillations in the volume of business operations. Investing surplus cash is the responsibility of the senior finance manager where they should consider the four criteria ,such as, safety ,liquidity, maturity and Yield. Generally Such surplus cash is invested in treasury bills, fixed deposit in a bank for short term duration and other marketable securities.

Thus,these steps are followed in maintaining optimum cash balance in a particular firm so that the liquidity and profitability both may be maintained. In addition to, there are certain other models also which have been developed to ensure optimum cash balance in any corporate concern ,such as, cash cycle model, Baumol model, Miller-orr model and stone model. In all these models, it is considered that the cache level should not be kept below and above the average level. It should be above the minimum level and lower than the maximum level so that the liquidity and profitability may not be adversely affected.