A study on cash management

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Abstract
In a business anything done financially affects cash eventually. Cash is to a business what blood is to a living body. A business cannot operate without its life-blood cash, and without cash management, there may remain no cash to operate.

Keywords
Business, cash management, finance, cheques

1. Introduction
Cash is an important current asset for the operation of the business. Cash is the basic input needed to keep the business running on a continuation basis. It is also the ultimate output realized by selling the services or product manufactured by the firm. Cash is the most liquid of all the current assets. Higher cash and bank balance indicate high liquidity position in lower profitability, as ideal cash fetches no return. Thus a major function of finance manager is maintain sound cash position.

Cash is the money which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm, and balances in its bank accounts. Sometimes near-cash items, such as marketable securities or bank times deposits, are also included in cash. The basic characteristic of near-cash assets is that they can readily be converted into cash. Generally, when a firm has excess cash, it invests it in marketable securities. This kind of investment contributes some profit to the firm.

Cash management is concerned with managing of:
1. Cash flow in and out of the firm.
2. Cash flow within the firm.
3. Cash balance held by the firm at a point of time by financing deficit or investing surplus cash.

2. Objectives
1) To meet day to day business requirements.
2) To provide for schedule major payment i.e. Capital expenditure.
3) To face unexpected cash drain.
4) To maintain image of credit worthiness.
5) To size potential opportunities for profitable long-term investments.
6) To meet requirement of bank relationships.

Efficient cash management function calls for cash planning, evaluation of cash benefits and cost of policies, sound procedures and practices and synchronization of cash inflows and outflows. Thus for achieving goals and objectives of cash management, finance manager has to plan cash needs of the firm followed by cash flow management, determination of optimum level of cash and finally investment of surplus.

Factors affecting cash requirement:
(A) Internal Factors
(a) Profit level
(b) Dividend and Taxation policy
(c) Reserve and surplus
(d) Depreciation policy
(e) Expansion programme
(f) Operating efficiency

External Factors
(a) Fluctuating in marketing interest rates
(b) Investment avenues available in market
(c) Government economic policies
(d) Rules and regulations of RBI and other regulatory bodies

Cash management service generally offered
The following is the list of services generally offered by the companies;

Optimum utilization of operation cash:
Implementation of a sound cash management programme is based on rapid generation, efficient utilization and effec-
tive conversation of its cash resources. Cash flow is a circle. The quantum and speed of the flow can be regulated through prudent financial planning facilitating the running of business with the minimum cash balance. This can be achieved by making a proper analysis of operative cash flow cycle along with efficient management of working capital.

**Cash forecasting:**
Cash forecasting is backbone of cash planning. It forewarns a business regarding expected cash problems, which it may encounter, thus assisting it to regulate further cash flow movements. Lack of cash planning results in spasmodic cash flows.

**Cash management techniques:**
Every business is interested in accelerating its cash collections and decelerating cash payments so as to exploit its scarce cash resources to the maximum. There are techniques in the cash management which a business to achieve this objective.

**Liquidity analysis:**
The importance of liquidity in a business cannot be over emphasized. If one does the autopsies of the businesses that failed, he would find that the major reason for the failure was their inability to remain liquid. Liquidity has an intimate relationship with efficient utilisation of cash. It helps in the attainment of optimum level of liquidity.

**Profitable deployment of surplus funds:**
Due to non-synchronization of cash inflows and cash outflows the surplus cash may arise at certain points of time. If this cash surplus is deployed judiciously cash management will itself become a profit centre. However, much depends on the quantum of cash surplus and acceptability of market for its short-term investments.

**Economical borrowings:**
Another product of non-synchronization of cash inflows and cash outflows is emergence of deficits at various points of time. A business has to raise funds to the extent and for the period of deficits. Raising of funds at minimum cost is one of the important facets of cash management.

**Purpose of cash management:**
Cash management is the stewardship or proper use of an entity’s cash resources. It serves as the means to keep an organization functioning by making the best use of cash or liquid resources of the organization.

The function of cash management at the U.S. Treasury is threefold:

1. **To eliminate idle cash balances:** Every dollar held as cash rather than used to augment revenues or decrease expenditures represents a lost opportunity. Funds that are not needed to cover expected transactions can be used to buy back outstanding debt and cease a flow of funds out of the Treasury for interest payments) or can be invested to generate a flow of funds into the Treasury’s account. Minimizing idle cash balances requires accurate information about expected receipts and likely disbursements.

2. **To deposit collections timely:** Having funds in-hand is better than having accounts receivable. The cash is easier to convert immediately into value or goods. A receivable, an item to be converted in the future, often is subject to a transaction delay or a depreciation of value. Once funds are due to the Government, they should be converted to cash in-hand immediately and deposited in the Treasury’s account as soon as possible.

3. **To properly time disbursements:** Some payments must be made on a specified or legal date, such as Social Security payments. For such payments, there is no cash management decision. For other payments, such as vendor payments, discretion in timing is possible. Government vendors face the same cash management needs as the Government. They want to accelerate collections. One way vendors can do this is to offer discount terms for timely payment for goods sold.

**Motives for holding cash**
The firm’s need to hold cash may be attributed to the following the motives:

- The transactions motive
- The precautionary motive
- The speculative motive
- Transaction Motive

The transaction motive requires a firm to hold cash to conduct its business in the ordinary course. The firm needs cash primarily to make payments for purchases, wages and salaries, other operating expenses, taxes, dividends etc. The need to hold cash would not arise if there synchronization between cash receipts and cash payments, i.e., enough cash is received when the payment has to be made. But cash receipts and payments are not perfectly synchronized. For those periods, when cash payments exceeds cash receipts, the firm should maintain some cash balance to be able to make required payments. For transactions purpose, a firm may invest its cash in marketable securities. Usually, the firm will purchase securities whose maturity corresponds with some anticipated payments, such as dividends, or taxes in the future. Notice that the transactions motive mainly refers to holding cash to meet anticipated payments whose timing is not perfectly matched with cash receipts.

**Precautionary motive:**
The precautionary motive is the need to hold cash to meet contingencies in the future. It provides a cushion or buffer to withstand some unexpected emergency. The precautionary amount of cash depends upon the predictability of cash flows. If cash flow can be predicted with accuracy, less cash will be maintained for an emergency. The amount of precautionary cash is also influenced by the firm’s ability to borrow at short notice when the need arises. Stronger the ability of the firm to borrow at short notice, less the need for precautionary balance. The precautionary balance may be kept in cash and marketable securities. Marketable securities play an important role here. The amount of cash set aside for precautionary reasons is not expected anything; therefore, the firm attempt to earn some profit on it. Such funds should be invested in high-liquid and low-risk marketable securities. Precautionary balance should, thus, more in marketable securities and relatively less in cash.
Speculative motive:

The speculative motive relates to the holding of cash for investing in profit-making opportunities as and when they arise. The opportunity to make profit may arise when the security prices change. The firm will hold cash, when it is expected that the interest rates will rise and security prices will fall. Securities can be purchased when the interest rate is expected to fall; the firm will benefit by the subsequent fall in interest rates and increase in security prices. The firm may also speculate on materials’ prices. If it is expected that materials’ prices will fall, the firm can postpone materials’ purchasing and make purchases in future when price actually falls. Some firms may hold cash for speculative purposes. By and large, business firms do not engage in speculations. Thus, the primary motives to hold cash and marketable securities are: the transactions and the precautionary motives.

Cash flow statement:

In financial accounting, a cash flow statement or statement of cash flows is a financial statement that shows how changes in balance sheet and income accounts affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities. As an analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills. International Accounting Standard 7 (IAS 7) is the International Accounting Standard that deals with cash flow statements. The success, growth and survival of every reporting entity depend on its ability to generate or otherwise obtain cash. Cash flow is a concept that everyone understands. It is usually measured during a specified, finite period of time. Measurement of cash flow can be used.

- To determine a project’s rate of return or value. The time of cash flows into and out of projects are used as inputs in financial models such as internal rate of return, and net present value.
- To determine problems with a business’s liquidity. Being profitable does not necessarily mean being liquid. A company can fail because of a shortage of cash, even while profitable. As an alternate measure of a business’s profits when it is believed that accrual accounting concepts do not represent economic realities. For example, a company may be notionally profitable but generating little operational cash (as may be the case for a company that barter its products rather than selling for cash). In such a case, the company may be deriving additional operating cash by issuing shares, or raising additional debt finance.
- Cash flow can be used to evaluate the ‘quality’ of Income generated by accrual accounting. When Net Income is composed of large non-cash items it is considered low quality.
- To evaluate the risks within a financial product. E.g. matching cash requirements, evaluating default risk, re-investment requirements, etc.

Cash flow is one of the most important aspects of running any business - large or small. It is one of the single most important reasons why many businesses fail - regardless of how good the business is. Managing cash flow therefore is vitally important in the smooth running, survival and success of a business. This activity will look at what cash flow is, and use some examples to show how cash flow can make the difference between success and failure. Failure in this case means insolvency. If you are insolvent then you are unable to pay your debts. We often use the term ‘bankrupt’ to describe this but strictly, only an individual can be declared bankrupt. Companies are declared as insolvent. The principle however is the same. Some firms deal with so-called ‘personal insolvency’ which effectively means bankruptcy so the use of the terms can sometimes be confusing! Business success might not be determined by how many customers you have, the quality of your product, the price or many other things - it might be down to a simple case of managing your cash flows! Cash flow should not be confused with ‘profit’ - these are two different things. Profit refers to the difference between the total revenue (TR) and total cost (TC) over a period of time.

Cash management in cameo

Cash does not enter into the profit and loss account of enterprise, hence cash is neither profit nor loss, but without cash profit remains meaningless. Profit is a liability and cash is the real thing which is used for payment of obligations. Creditors and other expenses cannot be paid unless profit is realized in to cash.

Cash and profit distinction is often not understood clearly. It is not correct to say that companies making good profit does not having working capital problem. The problem is more acute for companies which are growing at a fast rate. The raise in profit gives an euphoric feeling of all being will everywhere. But the real cash position of the company which might be showing a downward trend and hence, pushing the company slowly to severe liquidity crisis despite the company making high profit.

There is nothing wrong in making profit, in fact, that is the purpose of business, but. Unless there is cash coming through profit, a company will soon be dead. Cash is the lifeline of an organization. A sustained growth of a company depends upon the cash ability of the profit, not the profit in the profit and loss account.

Cash is like any other asset should not be kept ideal. Unless it is put in to use it will not only stops earning, but will give negative return.

The presentation of the cash flow can be of following:

1. Operating activities to cover cash flows relating to all revenue generating activities of the company.
2. Investing activities to cover cash flows arising from sale
pf fixed assets. Cash flows relating to investments in equity, cash advances and loans including their repayments.

3. Financing activities to cover cash flows arising out of all capital and debt issues of the enterprise including repayment of loans. By analyzing the Cash flow of Cameo from their profit and loss account the following results are arrived:

| Table -1. Analyzing the Cash flow of Cameo from their profit and loss account |
|---------------------------------|-----|-----|
| Particulars                      | Current year | Previous year |
| **Opening balance of Debtors**  | XXX         | XXX         |
| **Add: Service charges during the year** | XXX | XXX |
| Total Debtors                    | XXX         | XXX         |
| **Less: Closing balance of Debtors** | XXX | XXX |
| **Cash to be realized during the year** | XXX | XXX |

**Objectives of the study**

Objective:

1. The purpose of preparing a cash flow projection is to determine shortages or excesses in cash from that necessary to operate the business during the time for which the projection is prepared.

2. If cash shortages are revealed in the project, financial plans must be altered to provide more cash until a proper cash flow balance is obtained.

3. Ways to reduce the amount of cash paid out includes having fewer inventories, reducing purchases of equipment or other fixed assets, or eliminating some operating expenses.

4. If excesses of cash are revealed, it might indicate excessive borrowing or idle money that could be "put to work". The objective is to finally develop a plan which, if followed, will provide a well-managed flow of cash.

**Scope of the study**

The purpose of preparing a cash flow project is to determine shortages or excesses in cash.

1. Ways to reduce the amount of cash paid out includes having fewer inventories, reducing purchases of equipment or other fixed assets, or eliminating some operating expenses.

2. The objective is to finally develop a plan which, if followed, will provide a well-managed flow of cash.

3. It involves the study of the existing pattern of cash flow management in the organization.

4. Understand the types of transactions that result in cash flows from operating, investing, and financing activities.

5. To know the financial soundness of the company.

6. Develop an ability to analyze the statement of projected cash flows, including the relation among cash flows from operating, investing, and financing activities for businesses in various stages of their growth.

**Research Methodology**

**Primary Data**

Primary data is collected with consultation and discussion with the concerned staff. The company whenever requires funds they arrange the funds from the internal sources. They arrange the funds from customer advance. The company mostly does not borrow funds from the banks. Whenever the company receives the money from the debtors they simultaneously pay to their creditors. The company has proper balances between the inflow and outflow of the funds through the debtors and creditors.

These include the survey or questionnaire method, as well as the personal interview methods of data collection.

**Research Design**

The design for this study is basically analytical because it utilize the large number of data of the Company

Fxample size: 100

**Type of sample**

Sampling refers to the method of selecting a sample from a given universe with a view to draw conclusions about that universe. A sample is a representative of the universe selected for study.

**Secondary Data**

It was collected from the P&L Ac, balance sheet, reference books based on financial management & management accounting. The various books helped in understanding the various theoretical concepts associated with the project such as the significance of Cash flow management & the way to interpret various funds. All the figures required to carry out the ratio analysis were gathered from financial statements such as P&L Ac,

Balance sheet of the company:

1. Data collected from members of Cameo Ltd.
2. Data collected through questionnaires.
3. Data collected through telephonic conversation.
4. Data collected from various books.
5. Data collected from internet

Since the analysis was of the various cash flow activities, the important tool of data analysis are cash flow statement and ratio analysis. Tables and graphs were prepared to have a clear understandings of the subject, the tables were put into graphs to make more understandable.

**Review of literature**

Cash flow is the oxygen that brings your business to life. As surely as you cannot live with out air, a business will grind to a halt if starved for cash.

Cash Management is concerned with the management of collections and disbursement of cash, determination of optimum level of cash and investment of surplus cash into securities. Cash management includes management of cash inflow, cash outflow, estimation of cash requirement, ascertaining cost of managing cash, techniques of managing cash.

Cash management also includes management of cash as well as cash equitant i.e. Bank accounts etc. Cash management is done because all the transactions in the business in done in cash, so there is need for estimation of cash in future.
for smooth running of the business. So cash management is very important for every organization.

If at any time, because of a lack of cash, a corporation fails to pay an obligation when it is due, the corporation is insolvent. Insolvency is the primary reason firms go bankrupt. Obviously, the prospect of such dire consequence compels companies to manage their cash with care. Moreover, efficient cash management means more than just preventing bankruptcy. It improves the profitability and reduces the risk the firm is exposed to.

A successful business rests on sound record keeping practices and solid cash flow. Without good records it is impossible to determine the financial condition or profitability of a business. Similarly, in order to survive a small business must achieve a positive cash flow in the long term. This Financial Guide provides the basic information the owner of a small business need to establish good record keeping practices in your business and to minimize cash flow problems Web-based Cash Management.

Finacle web-based cash management solution enables banks to offer comprehensive cash management services to businesses, ranging from small enterprises to large corporate houses. Built on new-generation industry standard technologies J2EE and .NET, the modular solution provides corporate customers anytime, anywhere access to real-time consolidated information. It manages cash positions and electronically sends and receives funds in a secure manner, within and across borders.

The solution is multi-currency enabled and offers multilingual support. It is also designed to support multiple channels including the Internet and mobile, and can be interfaced with disparate host systems and third-party applications.

Key Offerings:
- Balances and Transaction Information
- Electronic Invoice Presentment and Payment
- Payables Management
- Receivables Management
- Liquidity Management and Reconciliation Reporting
- Trade Finance

Additional Features
- Alerts
- Infrastructure
- Security

Corporate Cash Management to benefit from Electronic Payments

The new electronic payment products and services offer the corporate clients an improved bottom line by helping manage cash requirements. It helps corporate to make the best use of their funds and provides an effective means of managing their financial requirements.

Several of the trends in cash flow forecasting favor the use of electronic payment products like RTGS, Electronic Funds Transfer (EFT) and card payments. Improved technology and systems integration makes it more attractive to use electronic payment products because these methods of payment can be incorporated into firm-wide computing systems.

The new forecasting techniques also suggest use of electronic payments, because they offer disaggregated revenue and spending data that can easily be categorized and studied. Electronic payments and cards provide control over incoming funds, and allow companies to limit access to these funds to authorized parties. In addition, limiting corporate purchases to electronic payments makes it easier for firms to monitor cash out flows and prevent unauthorized expenditures, because these payments are easier to document and provide an audit trail.

Business Benefits

Generation of Fee-based Income

Finacle’s features such as wire initiations, liquidity management, alerts, cross border payments and positive pay offer a consistent stream of fee-based revenues. The customer relationship management capabilities embedded within these systems also enable targeted marketing, leading to greater opportunities for cross-selling and a higher fee income.

Business Agility

Built on industry standard platforms J2EE and .NET, the solution provides banks with tremendous flexibility to extend their product portfolio and customize the solution according to requirements. The architecture of the solution enables the bank to write business rules once and deploy anywhere, add new rules, modify existing ones or integrate with other applications seamlessly. The solution also provides an addition allayer that can be extended to interface with multiple back office systems. All this enhances agility of operations, helping the bank identify new opportunities and roll out new products.

Cost Savings

Thin-client architecture over the Internet reduces the cost of maintenance associated with frequent upgrades and support. The deployment of Finacle enables a cost-effective channel through which to serve customers. As the number of transactions completed on-line increases, the number of more expensive branch transactions decreases. This is especially true of small business customers who tend to use the branch as their primary channel. Greater automation and productivity, as well as reduced human error, further lead to increased cost savings.

Increased Customer Satisfaction

Cash Management Basics:

Cash is your business’s lifeblood. Managed well, your company remains healthy and strong. Managed poorly, your company goes into cardiac arrest.

If you haven’t considered cash management an important issue, then you’re probably undermining your business’s short-term stability and its long-term survival. But how can you manage business cash better?

Start with understanding how good cash-management practices can influence your company’s growth and survival by reading "The Art of Cash Management," Inc FinanceEditor Jill Andresky Fraser’s classic article on the topic. Then dive
into forecasting your business-cash needs and learning how to handle a cash crisis. Assembled here are practical pieces of advice, tips and tricks from CEOs, and tools that you can use to get a handle on business cash.

**Steps to a Healthy Cash Flow**

Healthy cash flow is essential to the success of a small business. You may have the best service or product around, your employees and customers may love you, your office may be well organized, but if you don’t have the money to buy inventory or pay bills, you can’t keep your business running. Many business owners make the mistake of believing cash flow is largely out of their control. On the contrary, the following steps can really help.

1. **Analyze your financial condition**

   Financial analysts, credit providers and knowledgeable investors rely heavily on financial ratios to judge the health of a company. You should use these tools as well. Commonly used ratios can help you analyze your pricing strategy, level of overhead, liquidity, the health of your cash flow, your average collection period, the appropriateness of your collection terms and your inventory turnover rate.

2. **Improve your cash management**

   When it comes to the cash flowing through your financial accounts, your goals should be to ensure that incoming funds spend as much time as possible earning interest or dividends for your benefit and that outgoing funds are available when needed. With a traditional business checking account, meeting these seemingly simple goals can be a complex task. You will have to move funds manually into a separate money market account in order to earn interest or dividend income and back into your checking account to cover disbursements when due.

   An alternative is a central asset account, which combines traditional checking features, investment and borrowing into a single account. A central asset account saves you time and effort by automatically putting your cash where it needs to be, when it needs to be there. And by keeping your cash in interest-bearing accounts right up till the moment disbursements clear your account, a central asset account can also help increase your return and your bottom line.

**Findings and suggestions**

**Findings**

1.) In cameo corporate services maintains the effective cash flow so there is good possibilities for the future development.

2.) The financial experts of this have very keen to plan a budget in any other company and they spend lot of time on it so the finance should be very effective.

3.) The company assigned themselves the good financial goals and they follow it very effectively so there is expenses are monitored effectively.

4.) The financial systems are centralised in the company so the every one in the company can know the company where its stands.

5.) The financial reports are used by the management frequently so that the know how to monitor the expenses and income of the company and they budget accordingly.

6.) Company manages its cash well and spending large amount of funds for its cash management system.

7.) Company is investing its funds in long term investments which will be helpful to the company for long further growth.

8.) Company is on growth and there is further scope of future growth.

9) In the cash flow statement shows the frequent growth of the cash in each year that shows the company in the good position.

10.) Net working capital also shows the good results.

**Suggestions**

1.) Company can review existing service providers for cash management and other service providers, making initial presentations and discussions with banks and providers. Companies can shortlist potential providers for further in-depth discussions and presentations. It helps in reducing carrying cost of cash.

2.) Company can invest idle funds wisely may help you to generate income from your working capital, increasing your yields while maintaining liquidity. There are a wide variety of investment instruments available to companies seeking a return on excess cash. However, there are ways company may be able to improve yields on our idle working capital.

3.) For better cash management or in order to find minimum cash balance required for the company can use control charts with the help of this company will able to invest its excess amount of funds in short term securities and can reduce bank charges charged by the bank for overdraft purpose.

4.) Company is going in the right path, if they maintain the same level and improve the current level scope for the further development for the future.

5.) Company is on growth and there is scope for further scope

**Conclusion**

The cash flow statement shows that net increase in cash generated from operating and financing activities is much more than the previous year but cash from investing activities is negative in both year. There is increase of Rs.851324604. in Increase in cash & cash equivalents from previous year. Therefore analysis of cash flow statement shows that cash inflow is more than the cash outflow in CAMEO LTD.

The company’s overall position is at a good position. Particularly the current year’s position is well due to raise in the profit level from the last year position. It is better for the organization to diversify the funds to different sectors in the present market scenario.

**References**
