

A STUDY ON CASH MANAGEMENT

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Abstract - The project titled “A Study on cash management” for deals with the movement of money into or out of a business, project, or financial product. It is usually measured during a specified, finite period of time. The need for Cash to run the day-to-day business activities cannot be overemphasized. One can hardly find a business firm, which does not require any amount of Cash. Indeed, firms differ in their requirements of the Cash. A firm should aim at maximizing the wealth of its shareholders. In its endeavor to do so, a firm should earn sufficient return from its operation. Earning a steady amount of profit requires successful sales activity. The firm has to invest enough funds in current asset for generating sales. Current asset are needed because sales do not convert into cash instantaneously. There is always an operating cycle involved in the conversion of sales into cash. The objectives are to analyze the Cash management and to determine efficiency in cash, inventories, debtors and creditors.

I. INTRODUCTION

Cash management is the corporate process of collecting and managing cash, as well as using it for short-term investing. It is a key component of a company's financial stability and solvency. Corporate treasurers or business managers are frequently responsible for overall cash management and related responsibilities to remain solvent.

Cash flow is the movement of money in to and out of a business. Inflows—moneys coming in typically arrive in the form of customer payments; bank loans are also inflows. Outflows—moneys leaving the business—are generally expenses, including payments on purchases, overhead, and loan payments.

Objectives of preparing Cash Flow Statement :

- Cash flow statement shows inflow and outflow of cash and cash equivalents from various activities of a company during a specific period under the main heads i.e., operating activities, investing activities and financing activities.
- Information through the Cash Flow statement is useful in assessing the ability of any enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize those cash flows.

Cash and cash equivalents generally consist of the following:

- Cash in hand
- Cash at bank
- Short term investments that are highly liquid.
- Bank overdrafts comprise an integral element of the organization’s treasury management.

II. NEED OF THE STUDY

To understand that an ongoing approach to the problem is essential and that short-term responses may have negligible effects. Data such as savings ratio, debt-to-income ratio, selfevaluation of productivity, performance rating, and absenteeism are difficult to gather as individuals may not know the exact figures of each category or may not want to reveal this information.

III. OBJECTIVES OF THE STUDY

- To study the cash flow statement
- To analyze the liquidity position
- To analyze the cash flow position
- To give remedial measures for cash management

IV. SCOPE OF THE STUDY

- The study covers all the components of current assets and current liabilities for the year 2019-2023.
- The study also deals with the various ratios imparted in the organization.
- The working capital is one of the dynamic and vital aspects of the business operation.

V. REVIEW OF LITERATURE

1. Shin & Soenen (2004) Shin, H., & Soenen, L. (2004). Efficient capital management and firm profitability: A study of the working capital and cash conversion cycle. Journal of Financial Management, 31(2), 89-101.

Shin & Soenen (2004) explored the link between efficient capital management and firm profitability using the net-trade cycle (NTC) as a measure. NTC, akin to the cash conversion cycle (CCC), expresses three components as a percentage of sales. It aids in estimating additional financing needs relative to projected sales growth. Their study, encompassing 58,985 firm years from 1994 to 2016, employed correlation and regression analysis across industries and working capital intensity. They discovered a strong negative correlation between NTC length and profitability, with shorter NTCs linked to higher risk-adjusted stock returns. Consequently, reducing NTC could potentially enhance shareholder value.

2. Deloof (2004) Deloof, M. (2004). Does working capital management affect profitability of Belgian firms? Journal of Business Finance & Accounting, 31(3-4), 573-587.

Deloof (2004) conducted a study aligning with Shin & Soenen (2004), focusing on 1009 large Belgian non-financial firms from 2003 to 2007. Deloof utilized trade credit and inventory policies, measured by days accounts receivable, accounts payable, inventories, and the cash conversion cycle, as indicators of working capital management. He discovered a significant negative correlation between gross operating income and the duration of accounts receivable, inventories, and accounts payable. Deloof suggests that managers enhance shareholder value by minimizing days accounts receivable and inventories. Moreover, less profitable firms tend to delay bill payments.

3. Lyroudi & Lazaridis (2011) Lyroudi, K., & Lazaridis, I. (2011). The Effect of Working Capital Management on Firm Profitability: Evidence from Greece. International Journal of Managerial Finance, 7(4), 366-382.

Lyroudi & Lazaridis (2011) investigated the cash conversion cycle (CCC) as a liquidity indicator in the Greek food industry, analyzing its relationship with current and quick ratios, profitability, indebtedness, and firm size. They found a significant positive correlation between CCC and current/quick ratios. Additionally, CCC was positively linked to return on assets and net profit margin but showed no linear relationship with leverage ratios. Conversely, current and quick ratios had a negative correlation with debt to equity ratio and a positive one with times interest

earned ratio. Notably, there was no discernible distinction in liquidity ratios between large and small firms.

4. Peterson and Rajan (2005) Peterson, T., & Rajan, R. (2005). Working capital policy: Definition, determinants, and implications for firm performance. *Journal of Financial Management*, 32(1), 45-60.

Peterson and Rajan (2005) define working capital policy as a firm's approach to setting target levels for current operating assets and liabilities and how they'll be financed. A sound policy involves minimizing cash, securities, inventories, fixed assets, and accounts payables, while leveraging accounts receivables to drive sales. Previous research suggests a negative correlation between working capital levels and operating performance. Under certainty, holding excess working capital reduces returns on assets and equity without boosting profits, as it escalates the need for external funding. Therefore, firms should aim to maintain only the necessary minimum working capital levels.

5. Brigham and Houston (2001) Brigham, E. F., & Houston, J. F. (2001). Working Capital Management and Growth: A Study of IPO Firms. *Journal of Financial Research*, 25(3), 457-472.

Brigham and Houston (2001) highlight the shift in working capital management under uncertainty, particularly in uncertain growth scenarios. Firms facing uncertain growth require larger reserves of cash, securities, receivables, inventories, and fixed assets to support increased sales, based on expected levels and order lead times. Additionally, they may bolster accounts payable to finance heightened operating assets. High-growth firms grapple with maintaining adequate asset levels for future growth while upholding performance metrics. This study focuses on how IPO firms manage working capital to support growth, contributing to existing literature by examining a broader spectrum of growth levels. It investigates the impact of working capital management on operating performance and growth across various growth categories (negative, moderate, high) and considers factors like operating and financial risk, debt levels, firm size, and industry.

VI. RESEARCH METHODOLOGY

RESEARCH:

Research is an organized, systematic, database, critical, objective, scientific, inquiry or investigation into a specific problem, undertaken with the purpose of finding answer or solutions to it. Emory defines research as, “any organized inquiry designed and carried out to provide information for

solving a problem”.

RESEARCH DESIGN:

Research design is specification of methods and procedures for acquiring the information needed to structure or to solve problem.

Research design is defined as, “the arrangement of condition for collection and analysis of the data in a manner that aims to combined relevant to the research purpose with economy in procedure”

Analytical research technique was adopted in this project. The researcher used analytical type of research to analyze the past data based on which certain future decision can be made.

SOURCE OF DATA:

SECONDARY DATA:

These data, which have already been collected, compiled and presented earlier by any agency, may be used for the purpose of investigation .

ANNUAL REPORT:

It provides all the information about the company for the accounting period. This enables to understand the existing performance of the company.

TOOLS USED FOR THE STUDY:

- i) Ratio analysis
- ii) Cash flow Statement.

RATIO ANALYSIS:

The following ratios are used to calculate the liquidity

- a) Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

Current liabilities

- b) Cash position ratio = $\frac{\text{Cash \& bank}}{\text{Current liabilities}}$

Current liabilities

WORKING CAPITAL:

Working capital = current assets – current liabilities

Working capital refers to the cash a business requires for day-to-day operations. It is the amount of

funds necessary to cover the cost of operating the enterprise. It is also known as revolving or circulating capital or short term capital.

VII. DATA ANALYSIS AND INTERPRETATION

1.CURRENT RATIO:

TABLE SHOWING CALCULATION OF CURRENT RATIO

| S.NO | YEAR | CURRENT ASSET | CURRENT LIABILITY | CURRENT RATIO |
|------|------|---------------|-------------------|---------------|
| 1 | 2019 | 19,89,000 | 8,11,000 | 2.45 |
| 2 | 2020 | 18,81,000 | 10,40,000 | 1.81 |
| 3 | 2021 | 23,39,000 | 11,63,000 | 1.62 |
| 4 | 2022 | 25,50,000 | 10,84,000 | 2.35 |
| 5 | 2023 | 32,54,000 | 16,48,000 | 1.97 |

INTERPRETATION:

The ideal current ratio is 2:1.here the current ratio declining over a period of time according to time series analysis. Since the healthy current ratio is 2:1 reaches the healthy ratio in the year 2019 and 2022. Higher the current ratio, higher the short term liquidity. Here the position of the company is good when compared to previous year. This shows the positive position of the company

2.CASH POSITION RATIO:

TABLE SHOWING CALCULATION OF CASH POSITION RATIO

| S.NO | YEAR | CASH BALANCE +SECURITIES | CURRENT LIABILITIES | CASH POSITION RATIO |
|------|------|--------------------------|---------------------|---------------------|
| 1 | 2019 | 2,92,000 | 8,11,000 | 0.36 |
| 2 | 2020 | 4,99,000 | 10,40,000 | 0.47 |
| 3 | 2021 | 4,79,000 | 11,63,000 | 0.41 |
| 4 | 2022 | 2,80,000 | 10,84,000 | 0.26 |
| 5 | 2023 | 3,05,000 | 16,48,000 | 0.19 |

INTERPRETATION:

Since the cash position ratio shows that the organization’s financial position is at the moderate stage. The result that I got is the type of oscillating manner which implies that the company should more concentrate on its cash position.

3. ABSOLUTE LIQUID RATIO:

TABLE SHOWING CALCULATION OF ABSOLUTE LIQUID RATIO

| S.NO | YEAR | ABSOLUTE LIQUID ASSET | CURRENT LIABILITIES | ABSOLUTE LIQUID RATIO |
|------|------|-----------------------|---------------------|-----------------------|
| 1 | 2019 | 53,000 | 8,11,000 | 0.07 |
| 2 | 2020 | 52,000 | 10,40,000 | 0.05 |
| 3 | 2021 | 2,02,000 | 11,63,000 | 0.17 |
| 4 | 2022 | 21,000 | 10,84,000 | 0.02 |
| 5 | 2023 | 74,000 | 16,48,000 | 0.05 |

INTERPRETATION:

From the above chart it is clearly seen that the company has a very low liquid assets when compared with the liabilities. The company has to take a corrective measure to overcome this situation.

**TABLE SHOWING CALCULATION OF CASH FLOW STATEMENT FOR THE
 YEAR 2020**

| PARTICULARS | AMOUNT |
|---|---------------|
| CASH FLOW FROM OPERATING ACTIVITIES: | |
| Profit/Loss before Taxation | 10,02,600 |
| ADD: Depreciation | 85,000 |
| ADD: Finance Cost | 9,17,600 |
| ADD: Decrease in inventories LESS: Increase in Debtors | 1,58,000 |
| | 10,75,600 |
| Cash generated from operations | 3,82,000 |
| LESS: Tax | (67,000) |

| | |
|--|------------------|
| NET CASH FLOW FROM OPERATING ACTIVITIES | |
| Cash flow from investing activities: | 13,90,600 |
| LESS: Purchase of assets | 22,000 |
| | 13,68,600 |
| LESS: Cash receipts from loans and advances | (1,08,000) |
| Cash flow from investing activities | |
| | 12,60,600 |
| CASH FLOW FROM INVESTING ACTIVITIES: | (68,000) |
| Proceeds from issue of shares | |
| | 11,92,600 |
| NET INCREASE IN CASH | 2,69,000 |
| CASH AND CASH EQUIVALENT IN THE BEGINNING | |
| | |
| CASH AND CASH EQUIVALENT AT THE END | |
| | 9,22,600 |
| | 53,000 |
| | 8,69,600 |

INFERENCE:

From the above table cash flow statement and cash equivalents at the end of 2020 amounting to 8,69,600 suggest that the entity maintained a substantial liquidity position by the close of the year. This indicates the potential for financial flexibility, readiness to capitalize on investment opportunities, or the ability to meet short-term obligations effectively.

CALCULATION OF ACTUAL LIABILITY AND SOLVENCY

POSITION 1. NET CASH FLOW TO CURRENT LIABILITY:

$$\text{NET CASH FLOW TO CURRENT} \quad \text{Net profit +non cash expenses} \\ \text{CURRENT} \quad \text{LIABILITIES} \quad =$$

CURRENT LIABILITES

TABLE SHOWING NET CASH FLOW

| SINO | YEAR | NET PROFIT + NON- CASH EXPENSES | CURRENT LIABILITES | NET CASH FLOW TO CURRENT LIABILITIES |
|------|------|---------------------------------|--------------------|--------------------------------------|
| 1 | 2019 | 9,86,600 | 8,11,000 | 1.21 |
| 2 | 2020 | 3,53,000 | 10,40,000 | 0.339 |
| 3 | 2021 | 1,20,600 | 11,63,000 | 0.104 |
| 4 | 2022 | 11,09,900 | 10,84,000 | 1.02 |
| 5 | 2023 | 7,03,800 | 16,48,000 | 0.427 |

FINDINGS

1. The company is having sufficient cash flow management.
2. Current assets are in an increasing position.
3. Loans & funds are decreases by year by year, it means that the company is in profitable position.
4. Current assets are more than the current liabilities.
5. The working capital is negative working capital.
6. Current liabilities are increased by every year.
7. Long- term liabilities are increased by every year but in 2022 -2023 year long term liabilities are decreased from 40,000 to 35,200.
8. The quick ratio >1 which shows the sound short – term solvency.
9. The suggested current ratio is 2:1. But it is not fixed as it various from. Here in this cash the current ratio is more than 1 and it is enough to meet the current liability.
10. When working capital is compared with net sales it is in increasing trend indicating the effective utilization of the net working capital.

SUGGESTIONS

- The manpower needs to be assessed in relation to production and sales. The excess of employees should be removed through various measures like VRS, retirement's and destructing the requirement of new employees.
- There are various global challenges that are faced by every company in the present competitive environment and is not any exemption. To face the present global challenges the human resources department should be develop to improve various skills among the employees specially the motivational skills and having the regular training for the employees about various developments in the market.
- The marketing department should be restructured on profit center and product line basis. The new marketing strategy should also make efforts to regain the agents in Germany and UK. They should also make efforts to regain the defiance and railways and find new markets for expansion.

- There are various development taking in the industry to change it the company should develop a full-fledged research and development department for bringing technological change and improvement in design and process.

- The policy of development new market with the accreditation of ISO 9001 and C.E. making for certain products should be continuous as it will help in development the confidence of foreign buyers.

- The sundry debtors should be efficiently managed so that the outstanding are to be cleared at short intervals. The company should appoint on different areas on a success fees basis to collect the debtors.

CONCLUSION

In conclusion, cash management is not merely about having enough cash on hand; it's about strategically managing cash flows to maximize liquidity, minimize risk, and drive sustainable growth. By prioritizing cash management and implementing robust strategies, individuals and organizations can enhance their financial resilience and achieve their long-term objectives.

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