



RAMA UNIVERSITY

www.ramauniversity.ac.in

FACULTY OF COMMERCE AND MANAGEMENT

COURSE: BCH V SEM..

SUBJECT: FUNDAMENTAL OF FINANCIAL MANAGEMENT

SUBJECT CODE: BCH 505

LECTURE: 35

NAME OF FACULTY: DR. PALASH BAIRAGI

LECTURE-35



CURRENT ASSETS MANAGEMENT

CASH MANAGEMENT

Cash management has assumed importance because it is the most significant of all the current assets. It is required to meet business obligations and it is productive when not used.

Cash management deals with the following:

- (i) Cash inflows and outflows
- (ii) Cash balances held by the firm at a point of time
- (iii) Cash balances held by the firm at a point of time

Cash management needs strategies to deal with various facets of cash. Following are some of its facets:

(a) Cash Planning: Cash Planning is a technique to plan and control the use of cash. A projected cash flow statement may be prepared, based on the present business operations and anticipated future activities. The cash inflows from various sources may be anticipated and cash outflows will determine the possible uses of cash;

(b) Cash Forecasts and Budgeting: A cash budget is the most important device for the control of receipts and payments of cash. A cash budget is an estimate of cash receipts and disbursements during a future period of time. It is an analysis of flow of cash in a business over a future, short or long period of time. It is a forecast of expected cash intake and outlay.

Both Short-term and long-term cash forecasts may be made with the help of following methods:

- (i) Receipts and disbursements method
- (ii) Adjusted net income method

(i) Receipts and Disbursements Method: In this method the receipts and payments of cash are estimated. The receipts and disbursements are to be equaled over a short as well as long periods. Any shortfall in receipts will have to be met from banks or other sources. Similarly, surplus cash may be invested in risk free marketable securities. It may be easy to make estimates

for payments but cash receipts may not be accurately made. The payments are to be made by outsiders, so there may be some problem in finding out the exact receipts at a particular period. Because of uncertainty, the reliability of this method may be reduced.

(ii) Adjusted Net Income Method: This method may also be known as sources and uses approach. It generally has three sections: sources of cash, uses of cash and adjusted cash balance. The adjusted net income method helps in projecting the company's need for cash at some future date and to see whether the shares, etc. In preparing its statement the items like net income, depreciation, dividends, taxes, etc.