



# RAMA UNIVERSITY

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**FACULTY OF COMMERCE AND MANAGEMENT**

**COURSE: MBA III SEM..**

**SUBJECT: WORKING CAPITAL MANAGEMENT**

**SUBJECT CODE: MBAFM02**

**LECTURE: 31**

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## LECTURE-31



## **CASH MANAGEMENT**

Cash Management refers to the collection, handling, control and investment of the organizational cash and cash equivalents, to ensure optimum utilization of the firm's liquid resources. Money is the lifeline of the business, and therefore it is essential to maintain a sound cash flow position in the organization.

- **Receivables Cash Management**

Any amount which the company has earned however not yet received, i.e. its outstanding and is expected to be received in future, is known as receivables.

An organization must manage its receivables to maintain the surplus cash inflow. It helps the firm to fulfil its immediate cash requirements.

The cash receivables must be planned in such a way that the organization can realise its debts quickly and should allow a short credit period to the debtors.

- **Payables Cash Management**

The payables refer to the payment which is unpaid by the organization and is to be paid off shortly.

The organization should plan its cash outflow in such a manner that it can acquire an extended credit period from the creditors.

This helps the firm to retain its cash resources for a longer duration to meet the short term requirements and sudden expenses. Even the organization can invest this cash in a profitable opportunity for that particular credit period to generate additional income.

- **Objectives of Cash Management**

Why do we need to manage cash flow in the organization? What is the use of cash management in the business?

Following purposes of cash management will resolve the above queries:



- **Fulfil Working Capital Requirement:** The organization needs to maintain ample liquid cash to meet its routine expenses which possible only through effective cash management.
- **Planning Capital Expenditure:** It helps in planning the capital expenditure and determining the ratio of debt and equity to acquire finance for this purpose.
- **Handling Unorganized Costs:** There are times when the company encounters unexpected circumstances like the breakdown of machinery. These are unforeseen expenses to cope up with; cash surplus is a lifesaver in such conditions.
- **Initiates Investment:** The other aim of cash management is to invest the idle funds in the right opportunity and the correct proportion.
- **Better Utilization of Funds:** It ensures the optimum utilization of the available funds by creating a proper balance between the cash in hand and investment.
- **Avoiding Insolvency:** If the business does not plan for efficient cash management, the situation of insolvency may arise. It is either due to lack of liquid cash or not making a profit out of the money available.