CHAPTER –6

CASH MANAGEMENT

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6.1 Introduction

Cash management is one of the most important areas in the day-to-day management of the firm’s deals with the management of working capital, which is defined as all the short-term assets used in daily operations. This consists primarily of cash, marketable securities, accounts receivable and inventory. The balances in these accounts can be highly volatile as they respond very quickly to changes in the firm’s operating environment.

A highly liquid firm has sufficient cash to pay its bills at all times. An illiquid firm is unable to pay its bills when due.

Cash is the most important current asset for the operations of the business. It is the basic input needed to keep the business running on a continuous basis. It is the money, which the firm can disburse immediately without any restriction. The term cash includes coins, currency, cheques held by the firm and balances in its bank accounts.

In common parlance the term cash refers to all money items and sources that are immediately available to help in paying firms obligations. In the balance sheet, cash assets include deposits in financial institutions and cash equivalent in money market funds or marketable securities. All highly liquid short-term securities are treated as cash. Investment in government and corporate securities are treated as cash because they may be liquidated through a short call notice.

J.M.Keyens postulated three motives for holding cash viz-Transaction motive, Precautionary motive, and Speculative motive. These can be said to form the basis for cash management in business enterprise. Cash is the oil that lubricates the wheel of business. Inadequate cash slows down the production and on the other hand carrying cash is expensive since it is a non earning asset. A firm that holds cash beyond its minimum requirement is lowering its potential earning. As per J.M.Keyens opinion “Cash is the most important current asset. It is the cash, which keeps a business going. It is the hub around which all other financial matters center.” No one can deny the fact that cash is the blood inside the business enterprise. Healthy circulation of cash in the entire business operation is the basis of business solvency. Cash is the basic input needed to keep the business running on a continuous basis. It is the ultimate output expected to be realized by selling the services or product manufactured.
by the firm. Ultimately every transaction in a business results either in an inflow or an outflow of cash.

Effective management of cash is the key determinant of efficient working capital management. There should be sufficient cash with a firm all the time to meet the needs of the business. Both excess and inadequate cash may degenerate a firm into a state of technical insolvency and even lead to its liquidation. It will eventually disrupt the firm’s manufacturing operation. Excessive cash remains idle, without contributing anything towards the firm’s profitability.

Holding of cash balance has an implicit cost in the form of its opportunity cost. The larger the idle cash, the greater will be its opportunity cost in the form of loss of interest which could have been earned either by investing in some interest bearing securities or by reducing the burden of interest charges by paying off the past loans. The carrying of cash and near cash reserves beyond the irreducible needs cuts assets turnover and rate of return. If the cash balance with a firm at any time is surplus or deficit, it is obvious that the finances are mismanaged. Today, whim cash, like any other asset of the company, is a tool for profits; the emphasis is on right amount of cash at right time, at the right place and at the right cost.

6.2 Meaning of Cash Management

Cash Management is concerned with minimizing unproductive balances, investing temporarily cash advantageously and to making the best possible arrangement to meeting planned and unexpected demand on the firm’s cash. It involves managing of cash flows in and out of the firm i.e. cash flows within the firm and cash balances held by the firm at a point of time.

It is necessary for business to maintain a certain amount of cash in hand or bank, always even if the other current assets are at a sustained figure. Cash is both beginning and the end of the working capital cycle – cash, inventories, receivables and cash. Working capital cycle – cash, inventories, receivables and cash.

Cash is the basic input needed to keep a business running on a continuous basis. It is also the ultimate output expected to be realized by selling the services or product manufactured by an enterprise.

Cash Management assumes more importance than other current assets because cash is the most significant and the least productive asset that a firm holds. The aim of Cash Management should be to maintain adequate cash position to keep the firms operations in
profitable manner. There are two primary reasons for a firm to hold cash.

1. To meet the needs of day-to-day transactions.
2. To protect the firm against uncertainties characterizing its cash flow.

Proper cash management is required for smooth running and maximum profitability of the business.

It is clear that cash is like blood stream in the human body, gives vitality and strength to a business enterprise. It is necessary that the management of business enterprise should provide sufficient coverage to their currently maturing obligations in the form of enough cash and near cash assets, high and stable cash flows and sound profit margin. The first function of cash management increases the turnover of working capital cycle to bringing down the size of cash, the function reduces the problem of financing the working capital. Trade creditors, banks and external agencies provide finance.

Cash Management involves managing the monies of the firm in order to attain maximum cash availability and maximum cash income. Idle Cash management is concerned with minimizing unproductive cash balances, investing temporarily excess cash advantageously, and to making the best possible arrangements for meeting planned and to making the best possible arrangements for meeting planned and unexpected demand on the firm’s cash flows within the firm, and cash balances held by the firm at a point of time.

Cash management must be thought of in terms of the overall liquidity needs of the firm, specifically its current assets and liabilities. In order to reduce the influence of uncertainties with regard to cash needs and to ensure adequate liquidity, firms have to gauge the need for protective liquidity. Firms have to gauge the need for protective liquidity. The efforts involved for this purpose usually take the form of:

Assessment of the probabilities or odds that each of these will develop within a given period in future, such as 5 years. Assessment of the probabilities and developments creating cash drains will occur at the same time.

Assessment of the likely amount of cash drain that will result if each of the contingencies develops. An important policy decision regarding cash management is: what should be the optimal amount of cash balance to consider the form impact of the following factors:

1. The philosophy of the management regarding liquidity and risk of insolvency.
2. The expected cash inflows and outflows based on the cash budget forecasts encompassing long-range and short-range cash needs.

3. The size of sales in relation to fixed asset investment.

4. The degree of deviation between the expected and actual net cash flows.

5. The maturity structure of the firm’s liabilities.

6. The firm’s ability to borrow at short notice in the event of emergency.

7. Efficient planning and control of cash.

8. The status of the firm’s receivables and inventory

9. The credit position of the firm.

10. The nature of business.

6.3 Motives of holding cash

The firms need to hold cash may be attributed to the holding three motives:

1) Transaction motive –

The firms need a cash to carry out the day-to-day functions of the business. Just as the firm’s level of operations affects working capital requirements, it affects the need of cash. The volume of sales increases cash will be received from customers and will be expended for materials and wages in larger amount. Adequate cash to cover these and other transactions allows the firm to pay bills on due time. The firm needs cash primarily to make payments for purchases, wages, operating expenses, taxes, dividend etc. A firm may invest its cash in marketable securities whose maturity corresponds with some anticipated payments such as dividend, taxes etc. in future. However, the transaction motive mainly refers to holding cash to meet anticipated payments whose timing is not perfectly matched with cash receipts.

2) Contingency motive –

If the firm could perfectly forecast its need for cash, but it is not possible to forecast for unexpected occurrence or emergencies requirement of cash. The firm must be prepared for contingencies. If suddenly a major customer does not pay outstanding, the cash inflows will be reduce below the forecast level. The firms must have money to pay its own bills until the customer’s check arrives. A supplier may be having difficulties and may be forced to eliminate the firms a credit purchases. The unanticipated cash to buy raw material a contingency need related to cash outflows. It proceeds a cushion or buffer to withstand unexpected emergency. The precautionary amount of cash depends upon the predictability of cash flows. Stronger the ability of the firm to borrow at short notice, less the precautionary
balance required. Precautionary balance may be kept in cash and marketable securities. Marketable securities play an important role. The amount of cash set aside for precautionary reason is not expected to earn anything. The firm should attempt to earn more profit on it. Such funds should be invested in high liquid and low risk marketable securities and relatively in cash.

3) **Opportunity motive** –

It involves the chances of profit from cash available. For example, a supplier may have several cancellations of orders and may wish to move a large unwanted inventory of raw materials from his warehouse. If a supplier offers a large discount of purchasing of the materials, the firm will have the opportunity to avail of a substantial saving on its purchases and consequent profits from the sale of finished goods. The firm will hold cash when it is expected that interest rates will rise and security price will fall. Securities can be purchased when the interest rates are expected to fall. The firm will benefit by the subsequent fall in interest rates and increases in security prices. The firm may also speculate on materials prices. If it is expected that material price will fall, the firm can postpone materials purchasing and make purchases in future when price actually falls.

In addition to these needs of cash, several important factors may be identified, which affects the size of cash balance maintained by the firm –

1) **Availability of short term credit** – To avoid holding unnecessary large balances of cash for contingency or opportunity needs, most firms attempt to make arrangement to borrow money in cash of unexpected needs.

2) **Money market rates** – The money market consists of the institutions and individuals who lend or borrow money as part of the normal course of business activity. The interest charged on any loan is affected by a number of factors including the size of loan and the credit rating of the borrower.

3) **Variation in cash flows** – In addition to contingency needs, some firms experience wide fluctuations in cash flows as a routine matter. If a firm require its customer to pay the bills on the 10th of the month the firm may be unable to meet its own obligations due at the same time.

As a general rule, a firm with steady inflows and outflows can maintain a fairly cash balance. The balance is also lower than for firms with widely fluctuating flows. The firm can more accurately predict its cash balances and has fewer difficulties with cash management.
4) **Compensating balances** – If a firm has borrowed money from a bank the loan arrangement may require the firm to maintain a minimum balance of cash in its bank account. It is called a compensating balance. In effect, this requires the firm to use the service of the bank making the loan and gives the bank a guaranteed deposit of money on which it pays no interest. Another reason for the compensating balances is that the bank is expected to provide certain free services for the firm. The interest free deposits is the bank’s compensating for its advice and assistance.

A requirement to maintain a minimum cash balance increases the amount of cash that the firm must hold. It may be argued that this does not in fact, increases the firm’s liquidity. Since the firm cannot write checks on the compensating balances, it does not really have liquidity from the funds.

5) **Maximizing cash receipts** – A primary principle and basic objective of the financial manager is to make most of all possible cash receipts. Continual evolution is always called for to check the comparative cost of granting cash discounts of customer as contrasted with the alternate policy involving the interest expense for borrowing instead.

6) **Minimizing cash disbursements** - Concurrent in objective to maximizing cash receipts payments to creditors and for payroll is fundamental. Procedure payments made to larger creditors by using time drafts serve to make payments by the latest possible fixed date. Prevention of fraudulent practices is also of prime importance in the handling of cash disbursements.

7) **Maximizing cash utilization** - There are many occasions when a firm has more funds than required. These funds remain in the current account with the bank or in firm’s cash box, it will bring no return to the firm. At the same time being temporary in nature, these funds cannot be disposed of permanently, because after a short while the firm would again require these funds. A prudent financial manager would make the best possible use of idle funds even for a short duration.

### 6.4 Facts of Cash Management

The firm should develop some strategies for cash management. The firm should evolve strategies regarding the four facts of cash management.

1) **Cash Planning:** - Cash inflows and cash outflows should be planned to project cash surplus or deficit for each period of the planning period. Cash budget should be prepared for this purpose.
2) Managing the cash flows: – The flow of cash inflow and outflows should be properly managed. The cash inflow should be accelerated while as far as possible, the outflow of cash should be accelerated while as far as possible, the outflow of cash should be decelerated.

3) Optimum cash level: – the firm should decide about the appropriate level of cash balances. The cost of excess cash and danger of cash deficiency should be matched to determine the optimum level of cash balances.

4) Investing idle cash: – The idle cash or precautionary cash balances should be properly invested to earn profits. They should decide about the division of such cash balances between bank deposits and marketable securities.

6.5 Objectives of Cash Management

A firm has to meet day to day obligations, the salary and wage bills have to be paid to the workers on prescribed dates, likewise electricity and telephone bills, tax dues, interest and various other charges must be met on the due dates, payments to suppliers of goods is to be made in time to get the benefit of cash discount and to get future supplies. Non payments and delays in payment cause many problems and sometime financial loss to a concern. Therefore all concern needs sufficient availability of cash to be able to pay off their obligations as and when they fall due.

Current obligations are generally met out of cash inflows generated by a concern during the course of its operations. It may induce a concern to operate its business sufficiently on nil cash balance basis and thereby avoid the cost of holding idle cash. However in spite of best efforts, estimated inflows and outflows do not tally with the actual. Due to lack of perfect synchronization in the inflows and outflows, concern finds that desirable cash balances are not available. According to cash holding motives discussed above, an industrial unit may keep cash to accomplish the following objectives:-

1) to meet contingencies
2) to meet current obligations
3) to deserve benefit from favorable market conditions
4) to meet installment commitments under long term contracts
5) to make advantage of speculative gains and
6) To minimize funds committed to cash balance.

These are conflicting and mutually contradictory and the task of Cash Management is to reconcile them.
6.6 Functions of Cash Management

Cash Management must aim to reduce the required level of cash but minimize the risk of being unable to discharge claims against the company as they arise. Since cash itself is not an asset capable of causing the profit differential for the firm. It is desirable that cash balance be minimized as much as possible, the maintenance of adequate cash balances in an obvious requirement as a firm’s solvency is to be maintained. Cash management consists basically of having a sufficient quantity of cash yet maintaining a balance at lowest figure adequate to meet current obligations.” Moreover, another important function which Cash Management now-a-days seeks to undertake is to maximize its profits by investing the surplus cash in some marketable securities. The function of Cash Management, starts when a customer writes a cheque to pay the firm on its accounts receivables, and it ends when a supplier, an employee or the government releases collected funds from the firm on an account payable or accrual. Functions of Cash Management in brief are:-

1. collection and upkeep of cash and securities
2. control of payments i.e. providing requisite cash at the proper time and place to meet financial obligations.
3. Maintenance of adequate supply of cash to meet projected cash requirements, cash budget and day to day demands.
4. Maintenance of sound banking relations.

6.7 Cash Planning

Cash flows:-

Inflows and outflows are inseparable parts of the business operations of all firms. The firm needs cash to invest in inventories, receivable and fixed assets and to make payments for operating expenses in order to maintain growth in sales and earnings. It is possible that a firm may be making adequate profits, but may suffer form the shortage of cash as its growing needs maybe consuming cash very fast. The “Cash poor” position of the firm can be corrected if its cash needs are planned in advance. At times, a firm can have excess cash with it if its cash inflows exceed cash outflows. Such excess cash may remain idle. It can be anticipated and properly invested, if cash planning is resorted to.

Cash planning can help anticipated future cash flows and needs of the firm and reduces the possibility of idle cash balances (which lowers firm’s profitability) and cash deficits (which cause firm’s future)
Cash planning is a technique to plan for and control the use of cash. It protects the financial condition of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given period. The forecasts may be based on the present operations or the anticipated future operations. Cash plans are very crucial in developing the overall operation plans of the firm.

It may be done on the basis of daily, weekly or monthly. The period and frequency of cash planning generally depends upon the size of the firm and philosophy of management. Large firms prepare daily and weekly forecasts. Small firms may not prepare formal cash forecasts because of the non-availability of information and non-sophistication of operations. The small firms prepare cash projections, it is done on monthly basis. As the firm grows and business operations become complex, cash planning becomes inevitable for its continuing success.

6.8 Cash Forecasting and Budgeting

Cash budget is the most significant device to plan for and control the cash receipts and payments. A cash budget is a summary statement of the firm’s expected cash inflows and outflows over a projected time period. It gives information on the timing and magnitude of expected cash flow and cash balances over the projected period. It helps the financial manager to determine the future cash needs of the firm, plan for the financing of those needs and exercise control over the cash and liquidity of the firm.

Cash Forecasting: - Cash forecasts are needed to prepare cash budgets. It can be done on short-term or long-term basis. Generally, forecasts conferring periods of one year or less, considered short term. Those extended beyond one year which is considered as long-term.

Short-term forecasts:-

It is comparatively easy to make short-term forecasts. The important uses of carefully developed short-term cash forecasts are

1. it helps to determine operating cash requirements
2. it helps to anticipate short-term financing.
3. it helps to manage money market investments.

Short-term forecasting methods: -

1. Receipt and disbursements method:-

The prime aim of receipt and disbursements forecasts is to summarize these flows during a predetermined period. It is on a continuous basis. In case of those companies where
each item of income and expenses involve flow of cash, this method is favored to keep a close
control over cash.

2. **The adjusted net income method.-**
   This method of cash forecasting involves the tracing of working capital flows. It is sometimes
called the sources and uses approach. Two objectives of the adjusted net income approach are
(i) To project the company’s need for cash at some future date and (ii) to show whether the
company can generate this money internally, and if not, how much will have to either borrow
or rise in the capital market.

**Long-term cash forecasting:-**

   Long-term cash forecasts are prepared to give an idea of the company’s financial
requirements of distant future. They are not as detailed as the short-term forecasts are. Once a
company has impact, of say, new product developments or plant acquisitions on the firm’s
financial condition three, five or more years in the future.

Long-term forecasting methods: - The short-term forecasting methods, the receipts and
disbursements method and the adjusted net income method, can also be used in long-term
cash forecasting. This method not only reflects more accurately the impact of any recent
acquisitions but also foreshadows financing problems these new additions may pose for the
company.

**6.9 Cash Control Techniques**

The important techniques of controlling cash are:-

1. cash budgeting
2. ratio analysis
3. fund flow statement
4. Financial reports
5. Linear programming
6. Goal programming
7. Simulation technique and
8. Portfolio management.

Some of these are discussed below.

1. **Cash Budgeting: -** Cash budget is a time phased schedule of cash receipt and
disbursements, and show the estimated cash inflows and outflows over a certain period. it is a
tool of planning cash need of a business concern and serves as a cash control device. The cash
budget report aims at ascertaining deviation of actual operations from budgeted ones and making it possible to compare actual with estimated cash balances at the end of plan period. There is a marked difference between the actual and projected balances. The cash budget for the succeeding period should be revised and included in the report.

2. **Ratio analysis**: - It involves the use of accounting ratios rather than obsolete figures as an index of financial performance of a business concern. The analysis and interpretation of ratios does not only evaluate and control the over all financial performance of a concern, but also the different facts of its financial activities.

3. **Fund Flow Statement**: The analysis of financial statements through the preparation of the statements of changes in financial position of a business concern provides a very useful tool for financial planning and control. Such statements explain the charges in such or working capital and are accordingly called “Cash flow statement” and “funds flow statement”. These statement are prepared periodically to show the changes in a concern’s cash position and charges in its net working capital position, they provide evaluating techniques to the management to know the sources and uses of a concern’s fund over a period of time.

4. **Financial Reports**: - Cash reports provide a comparison of actual develops with forecast on a continual basis. Among the several types of cash reports, the important ones are (i) the daily cash report, (ii) the daily treasury report, and (iii) the monthly cash report. The daily cash report, as the name implies, shows the cash picture on a daily basis. An amplification of the daily cash report and the daily treasury report provides a comprehensive picture of changes in cash, marketable securities, debtors and creditors. The monthly cash report shows the picture of cash changes on a monthly basis.

### 6.10 Cash Discrepancy

Cash management is generally concerned with maintenance of an optimal level of cash at the disposal of concern. The possibility of cash discrepancy in the form of surplus or deficit cash either at the planning level or at the actual performance level can not be ruled out. A comparison of inflow and outflow of cash in a concern is likely to give rise either to cash surplus or cash deficit, in case the both do not synchronize. The situations need be dealt with in a cash management programmer so that the cash surplus, if any be arranged well in time so that the concern is not compelled to borrow from the market on unfavorable terms and conditions adding much to its costs.
6.11 Cash Shortage and Deficit

The terms indicate that a concern’s cash inflows fall short of its cash outflows at a particular point of time. These may make the concern incapable of meeting its obligations on due dates. In the case of shortage, a business concern will have a positive cash balance, but the same is below the safety level. On the other hand cash deficit occurs when an enterprise forecasts a negative cash balance revealing its incapability to meet its planned payments.

6.12 Determining the optimum Cash Balance

One of the primary responsibilities of the financial manager is to maintain a sound liquidity position of the firm so that dues may be settled in time. The firm needs cash not only to purchase raw materials and pay wages, but also for payments of dividends, interest, taxes, and countless other purposes. The test of liquidity is really the availability of cash to meet the firm’s obligations when they become due.

Cash balance is maintained for transactions purposes and an additional amount may be maintained as a buffer or safely stock. The financial manager should determine the appropriate amount of cash balance. Such a decision is influenced by a trade off between risk and return. The firm maintains a small cash balance; its liquidity position becomes weak and suffers from a paucity of cash to make payments. Higher profitability can be attained by investing released funds in some profitable opportunities. The firm runs out of cash it may have to sell its marketable securities, if available, or borrow. It involves transaction costs. On the other hand, if the firm maintains a high level of cash balance, it will have a sound liquidity position but forego the opportunities to earn interest. The potential interest lost on holding firm. The firm should maintain an optimum cash balance, neither a small nor a large cash balance. To find out the optimum cash balance, the transaction costs and risk of too small balance should be matched with the opportunity costs of too large balance. The firm maintains larger cash balances, its transaction costs decline, but the opportunity costs increase. At point (x) the sum of the two costs is minimum. While this is the point of optimum cash balance which a firm should seek to achieve.

6.13 Managing the cash flows

One the cash budget has been prepared and appropriate net cash flow established, the financial manager should ensure that there does not exist a significant deviation between projected cash flows and actual cash flows. To achieve this, cash management efficiency will have to be improved through a proper control of cash collection and disbursement. The twin
objectives in managing the cash flows should be to accelerate cash collections as much as possible and to decelerate or delay cash disbursements as much as possible

### 6.14 Accelerating Cash Collections

Speedy cash collections can conserve cash and reduce its requirements for cash balances. Cash collections can be accelerated by reducing the lag or gap between the time a customer pays bills and the time the cheque is collected and funds become available for the firm’s use. Within this item gap, the delay is caused by the mailing time, i.e. the time taken by the cheque in transit and the processing time i.e. the time taken by the firm in processing cheque for internal accounting purposes. The amount of sent by customers but not yet collected in called deposit float. The greater will be the firm’s deposit float, the longer the time taken in converting cheque into usable funds.

**Decentralized Collections**

A large firm, operating over wide geographical areas, can speed up its collections by following a decentralized collection procedure. A decentralized collection procedure, called concentration banking, is a system of operating through a number of collection centers, instead of a single collection centre centralized at the firm’s head office. The basic purpose of the decentralized collections is to minimize the lay the time from customers to the firm and the time when the firm can make the use of funds. Under decentralized collections, the firm will have a larger number of bank accounts operated in the areas where the firm has its branches. All branches may not have the collection centers. The selection of the collection centre will be depend will be required to collect cheques from customers and deposit in their local bank accounts. The collection centre will transfer funds above some predetermined minimum to a central of concentration bank account, generally at the firm’s head office, every day.

### 6.15 Lock-box System

Another techniques of speeding up the mailing, processing and collection times still further is a lock-box system in case of the concentration banking, cheques are received by a collection center and after processing, are deposited in the bank. Lock-box system helps the firm to eliminate the time between the receipt of cheque and their deposit in the bank. In a lock-box system, the firm establishes a number of collection centers, considering customer locations and volume of remittances. At each centre, the firm hires a post office box and instructs its customers to mail their remittances to the box. The firm’s local bank is given the
authority to pick up the remittances directly from the lock-box. The bank picks up the mail several times a day and deposits the cheques in the firm’s account. For the internal accounting purpose of the firm, the bank prepares the detailed records of the cheques picked up.

6.16 Controlling Disbursement

The effective control of disbursement can also help the firm in conserving cash and reducing the financial requirements. Disbursements arise due to trade credit, which is a source of funds. The firm should make the payments using the credit terms to the fullest extents.

6.17 Playing the float

Some firms use the technique of “Playing the float” to maximize the availability of funds. When the firm’s actual bank balance is greater than the balance shows in the firm’s books, the difference is called the payment float.

6.18 Control and Review

There are five major approaches for effective control are:-

1) Exploitation of techniques of cash mobilization to reduce operating requirement of cash.
2) Major efforts to increase the precision and reliability of cash forecasting
3) Maximum efforts to define and quantify the liquidity reserve needs of the firm.
4) The development of explicit alternative sources of liquidity.
5) Aggressive search for more productive uses for surplus money assets.

Some of the important technique of controlling cash is cash budgeting, ratio analysis, linear programming goal programming, simulation and portfolio management. Ratio analysis is widely in application. Some of the important ratios used as measures of cash control are discussed below:-

(1) Cash turnover – The ratio explains the speed with which cash is turned over. The higher the turn over, the less the cash balances required for any given level of sales; and other things remaining constant, it implies greater efficiency. The ratio can also be use to establish the cash balances to be held; once the sales forecasts for various periods have been made, the required cash balance can be calculated, using historical cash turnover figures. The ratio shows only what is happening to the cash balance without indicating the imperfections and irregularities, caused in cash flows by the income through sales, which may be partly responsible.
(2) **Cash as percentage of Current Assets.**

The ratio of cash in current assets provides an index of current operations and it helps to determine the minimum level of cash. Monthly control of cash and his records give some indication of trends. An increasing level of cash in current assets could be caused by a reduction in the credit given by the company’s suppliers or by too high cash balance. The first may be unavoidable; the second is not. The further analysis is required to determine the cause.

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Source: computed from annual reports of respective companies

Table No. 6.1 shows Current ratio cement industry India from 2000-01 to 2008-09. The ratio of ACL was 0.64 in 2000-01 which increased to 2.28 in 2002-03 and 1.68 in 2008-09. The ratio increased and reached at highest level of 2.28 in 2002-03 with an average of 1.4. The ratio GSCL indicated highly fluctuated trend with an average of 1.26. The ratio of SIL ranged between 0.6 in 2002-03 and 3.08 in 2006-07 with an average of 1.77. The ratio of SCL ranged between 0.22 in 2004-05 and 0.95 in 2007-08 with an average of 0.52. The ratio of SDCL ranged between 0.35 to 3.77 with an average of 1.23. The ratio UCL shows fluctuating trend with a range of 0.71 to 1.57. The current ratio of all the cement companies shows fluctuating trend, except UCL. The average ratio has been of 1.15.
The liquid ratio of cement companies are shown in the table No.6.2. The ratio of ACL shows increasing trend with an average of 0.65. The ratio ranged between 0.32 times in 2000-01 and 0.95 times in 2008-09. The ratio of GSCL ranged between 0.27 times in 2000-01 and 0.83 times in 2006-07 with an average of 0.64. The ratio of SIL was 0.46 times in 2000-01, 1.19 times in 2001-02 and reached to 0.17 times with an average of 1.15 times. The ratio of SCL was showing decreasing trend with an average of 0.31 times. The ratio SDCL ranged between 0.13 times in 2001-02 to 2.55 times in 2008-09. The average ratio has been of 0.51 times. The ratio of UCL was shown in the above table No. 6.2. The
ratio of UCL Company was highly fluctuated. The ratio ranged between 0.37 times in 2007-08 and 0.76 times in 2003-04 with an average of 0.61 times.

**Liquid ratio**

![Chart No. 6.2](image)

Table No. 6.3

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>ACL</td>
<td>10.78</td>
<td>7.51</td>
<td>11.10</td>
<td>7.45</td>
<td>14.74</td>
<td>15.05</td>
<td>34.26</td>
<td>40.57</td>
<td>36.83</td>
<td>19.81</td>
</tr>
<tr>
<td>GSCL</td>
<td>11.01</td>
<td>15.03</td>
<td>17.04</td>
<td>13.50</td>
<td>18.70</td>
<td>9.58</td>
<td>31.17</td>
<td>N.A</td>
<td>5.10</td>
<td>15.14</td>
</tr>
<tr>
<td>SIL</td>
<td>3.13</td>
<td>47.82</td>
<td>11.78</td>
<td>5.30</td>
<td>5.13</td>
<td>35.92</td>
<td>29.07</td>
<td>24.28</td>
<td>1.32</td>
<td>18.19</td>
</tr>
<tr>
<td>SCL</td>
<td>22.29</td>
<td>30.23</td>
<td>24.90</td>
<td>33.71</td>
<td>48.54</td>
<td>25.71</td>
<td>63.02</td>
<td>61.69</td>
<td>18.31</td>
<td>36.49</td>
</tr>
<tr>
<td>SDCL</td>
<td>4.52</td>
<td>4.98</td>
<td>2.67</td>
<td>5.78</td>
<td>2.93</td>
<td>4.71</td>
<td>2.62</td>
<td>21.93</td>
<td>56.99</td>
<td>11.90</td>
</tr>
<tr>
<td>UCL</td>
<td>100.00</td>
<td>62.50</td>
<td>N.A</td>
<td>7.60</td>
<td>8.59</td>
<td>8.00</td>
<td>9.35</td>
<td>7.73</td>
<td>7.73</td>
<td>26.44</td>
</tr>
</tbody>
</table>

Source: computed from annual reports of respective companies

Table No. 6.3 shows Cash as percentage in total current assets of each company from 2000-01 to 2008-09. The ratio of ACL was 7.45 in 2000-01 which increased to 34.26 in 2006-07 and 40.57 in 2007-08. The ratio increased and reached at highest level of 2.28 in 2002-03 with an average of 19.81. The ratio GSCL indicated highly fluctuated trend with an average of 15.14. The ratio of SIL ranged between 1.32 in 2008-09 and 47.82 in 2001-02 with an average of 18.19. The ratio of SCL ranged between 18.31 in 2008-09 and 63.02 in 2006-07 with an average of 36.49. The ratio of SDCL ranged between 2.62 to 56.99 with an average of 11.9. The ratio UCL shows fluctuating trend with a range of 7.6 to 100. The average ratio has been of 26.44.
Cash as percentage to total current assets

Table No. 6.4
Cash to Net working capital ratio

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>ACL</td>
<td>-0.19</td>
<td>0.35</td>
<td>0.20</td>
<td>0.53</td>
<td>9.72</td>
<td>0.57</td>
<td>0.82</td>
<td>1.29</td>
<td>0.91</td>
<td>1.58</td>
</tr>
<tr>
<td>GSCL</td>
<td>-0.19</td>
<td>-0.36</td>
<td>0.31</td>
<td>0.33</td>
<td>1.00</td>
<td>-6.56</td>
<td>0.82</td>
<td>N.A</td>
<td>4.02</td>
<td>-0.08</td>
</tr>
<tr>
<td>SIL</td>
<td>0.29</td>
<td>1.30</td>
<td>-0.17</td>
<td>-0.13</td>
<td>1.31</td>
<td>0.55</td>
<td>0.43</td>
<td>0.37</td>
<td>0.03</td>
<td>0.44</td>
</tr>
<tr>
<td>SCL</td>
<td>-0.48</td>
<td>-0.39</td>
<td>-0.18</td>
<td>-0.14</td>
<td>-0.14</td>
<td>-0.10</td>
<td>-1.83</td>
<td>-11.49</td>
<td>-0.20</td>
<td>-1.66</td>
</tr>
<tr>
<td>SDCL</td>
<td>-0.11</td>
<td>-0.05</td>
<td>-0.02</td>
<td>-0.03</td>
<td>-0.06</td>
<td>-0.51</td>
<td>0.06</td>
<td>0.44</td>
<td>0.78</td>
<td>0.06</td>
</tr>
<tr>
<td>UCL</td>
<td>-2.50</td>
<td>0.00</td>
<td>N.A</td>
<td>0.28</td>
<td>0.54</td>
<td>0.22</td>
<td>0.30</td>
<td>-0.72</td>
<td>-3.03</td>
<td>-0.61</td>
</tr>
<tr>
<td>Avg</td>
<td>-0.53</td>
<td>0.14</td>
<td>0.03</td>
<td>0.14</td>
<td>2.06</td>
<td>-0.97</td>
<td>0.10</td>
<td>-2.02</td>
<td>0.42</td>
<td>-0.07</td>
</tr>
</tbody>
</table>

Source: computed from annual reports of respective companies

Cash to Net working capital ratio of selected cement companies from 2000-01 to 2008-09 are shown in the Table No 6.4 Cash to Net working capital ratio ACL showed increasing trend with an average of 1.58. The ratio was -0.19 in 2000-01 and it went up to 9.72 in 2004-05. The ratio was the highest of 9.72 in 2004-05 and the lowest was in -0.19 in 2000-01. Cash to Net working capital ratio of GSCL ranged between -6.56 in 2005-06 and 4.02 in 2008-09. The ratio was on an average of -0.08. The ratio of SIL ranged between -0.17 in 2002-03 and 1.31 in 2004-05 with an average of 0.44. The ratio of SCL shows fluctuating trend throughout the study period with an average of -1.66. The ratio SDCL was
Cash to Net working capital

Table No. 6.5

Cash to total assets

<table>
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<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ACL</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.02</td>
<td>0.02</td>
<td>0.07</td>
<td>0.10</td>
<td>0.11</td>
<td>0.04</td>
</tr>
<tr>
<td>GSCL</td>
<td>0.05</td>
<td>0.07</td>
<td>0.04</td>
<td>0.04</td>
<td>0.05</td>
<td>0.02</td>
<td>0.11</td>
<td>N.A</td>
<td>0.02</td>
<td>0.05</td>
</tr>
<tr>
<td>SIL</td>
<td>0.00</td>
<td>0.02</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.05</td>
<td>0.05</td>
<td>0.06</td>
<td>0.00</td>
<td>0.02</td>
</tr>
<tr>
<td>SCL</td>
<td>0.05</td>
<td>0.05</td>
<td>0.03</td>
<td>0.04</td>
<td>0.05</td>
<td>0.04</td>
<td>0.20</td>
<td>0.22</td>
<td>0.03</td>
<td>0.08</td>
</tr>
<tr>
<td>SDCL</td>
<td>0.02</td>
<td>0.02</td>
<td>0.01</td>
<td>0.02</td>
<td>0.01</td>
<td>0.02</td>
<td>0.01</td>
<td>0.09</td>
<td>0.30</td>
<td>0.05</td>
</tr>
<tr>
<td>UCL</td>
<td>0.02</td>
<td>0.02</td>
<td>N.A</td>
<td>0.01</td>
<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
<td>0.01</td>
<td>0.02</td>
</tr>
<tr>
<td>Avg.</td>
<td>0.02</td>
<td>0.03</td>
<td>0.02</td>
<td>0.02</td>
<td>0.02</td>
<td>0.03</td>
<td>0.08</td>
<td>0.10</td>
<td>0.08</td>
<td>0.04</td>
</tr>
</tbody>
</table>

Source: computed from annual reports of respective companies

Table No. 6.5 Shows Cash to total assets of cement industry of India from 2000-01 to 2008-09. The ratio of ACL was 0.01 in 2000-01 which increased to 0.07 in 2006-07 and 0.11 in 2008-09. The ratio increased and reached at highest level of 0.11 in 2008-09 with an average of 0.04. The ratio GSCL indicated highly fluctuated trend during the study period.
period with an average of 0.05. The ratio of SIL ranged between 0.00 in 2008-09 and 0.06 in 2007-08 with an average of 0.02. The ratio of SCL ranged between 0.03 in 2002-03 and 0.22 in 2007-08 with an average of 0.08. The ratio of SDCL ranged between 0.01 to 0.3 with an average of 0.05. The ratio UCL shows fluctuating trend with a range of 0.01 to 0.02. The average ratio has been of 0.02.

Cash to total assets

![Chart 6.5](chart.png)

Table 6.6

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>ACL</td>
<td>0.07</td>
<td>0.09</td>
<td>0.25</td>
<td>0.09</td>
<td>0.15</td>
<td>0.20</td>
<td>0.59</td>
<td>0.59</td>
<td>0.60</td>
<td>0.29</td>
</tr>
<tr>
<td>GSCL</td>
<td>0.07</td>
<td>0.11</td>
<td>0.38</td>
<td>0.23</td>
<td>0.23</td>
<td>0.09</td>
<td>0.50</td>
<td>N.A</td>
<td>0.05</td>
<td>0.21</td>
</tr>
<tr>
<td>SIL</td>
<td>0.04</td>
<td>0.76</td>
<td>0.07</td>
<td>0.04</td>
<td>0.05</td>
<td>1.04</td>
<td>0.90</td>
<td>0.72</td>
<td>0.03</td>
<td>0.41</td>
</tr>
<tr>
<td>SCL</td>
<td>0.15</td>
<td>0.17</td>
<td>0.10</td>
<td>0.01</td>
<td>0.04</td>
<td>0.07</td>
<td>0.47</td>
<td>0.59</td>
<td>0.09</td>
<td>0.19</td>
</tr>
<tr>
<td>SDCL</td>
<td>0.03</td>
<td>0.02</td>
<td>0.01</td>
<td>0.02</td>
<td>0.01</td>
<td>0.03</td>
<td>0.04</td>
<td>0.42</td>
<td>2.13</td>
<td>0.30</td>
</tr>
<tr>
<td>UCL</td>
<td>0.71</td>
<td>0.63</td>
<td>N.A</td>
<td>0.10</td>
<td>0.10</td>
<td>0.13</td>
<td>0.14</td>
<td>0.07</td>
<td>0.08</td>
<td>0.25</td>
</tr>
<tr>
<td>Avg.</td>
<td>0.18</td>
<td>0.30</td>
<td>0.16</td>
<td>0.08</td>
<td>0.10</td>
<td>0.26</td>
<td>0.44</td>
<td>0.48</td>
<td>0.50</td>
<td>0.28</td>
</tr>
</tbody>
</table>

Source: computed from annual reports of respective companies

Table No. 6.6 gives a clear picture of Cash to current liabilities ratio of cement companies in India by the five companies. In Cash to current liabilities of all the cement companies shows fluctuating trend throughout the study period. The minimum Cash to current liabilities in ACL is 0.07 (2000-01), GSCL is 0.05 (2006-07), SIL is 0.03 (2008-
SCL is 0.01 (2002-03), SDCL is 0.01 (2004-05) and UCL is 0.07 (2007-08). The maximum Cash to current liabilities in ACL is 1.08 (2008-09), GSCL is 2.07 (2006-07), SIL is 1.04 (2005-06), SCL is 0.59 (2007-08), SDCL is 2.13 (2008-09) and UCL is 0.71 (2000-01).

Cash to current liabilities

Chart -6.6
References


