A STUDY ON CASH MANAGEMENT IN NETWORKING INDUSTRY

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ABSTRACT

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. Further, to understand the liquidity and profitability position of the firm. These objectives are achieved by using ratio analysis and then arriving at conclusions, which are important to understand the efficiency / inefficiency of Cash.

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 byfinancing deficit or investing surplus cash.

- Factors affecting cash requirement:
- Internal Factors
- Profit level
- Dividend and Taxation policy
- Reserve and surplus
- Depreciation policy
- Expansion programme
- Operating efficiency
- External Factors

- Fluctuating in marketing interest rates
- Investment avenues available in market
- Government economic policies
- Rules and regulations of RBI and other regulatory
- Bodies

REVIEW OF LITERATURE

Davidson et al., (1999) Cash can also be used for banking or commercial purposes. It's not an inventory, it's not a debt (it has to be), it's not a property. These can be converted into cash at any time, but you will need cash or money to pay the bank. Pay your rent and pay your salary. Increasing profits does not necessarily mean more money.

Pandey, (2007) Cash is an important current asset for commercial operations. Money is the main source of information necessary for the smooth running of your business. This is the expected end result of selling services or products manufactured by the company. The company must have enough money and nothing more. The lack of liquidity will hamper the company's production activities and excessive liquidity will simply remain unused. Without contributing to the profitability of Hue. Therefore, the main function of the financial manager is to maintaina healthy cash flow.

Waltson and Head (2007) Cash management has described the concept of optimizing free cash flow, optimizing interest generated by reserve funds that are not immediately needed, and reducing losses from late transfers.

According to Zimmerer et al (2008) Cash management is the process of forecasting, collecting, spending, investing and planning a fund that a business must manage smoothly.Cash management is also needed because it is the most important but unproductive asset ofSMEs. The company must have enough cash to fulfill its obligations. Otherwise, he is sentenced to bankruptcy. Creditors, employees, and lenders will have to pay over time, andcash is a vital means of exchange.

OBJECTIVES OF THE STUDY

- To evaluate the financial health of the company by analyzing its balance sheet, incomestatement, and cash flow statement.
- To identify areas where the company can improve its liquidity, solvency, and overallfinancial performance.
- To identify financial targets and goals for the company, such as revenue growth, costcontainment, and increased profitability over a specific period.
- To assess the effectiveness and efficiency of the financial operations of the company,such as its budgeting, accounting, and financial management practices.

NEED FOR THE STUDY

Cash management is one of the critical areas of working capital management and assumes greater significance because it is the most liquid asset used to satisfy the firm’s obligations but it is a sterile asset as it does not yield anything. Therefore, the finance manager has to manage cash so that the firm maintains its liquidity position without jeopardizing profitability. It Is interesting to observe that in real life a finance manager spends considerable time managing cash which constitutes relatively a small proportion of a firm’s current assets. This is why in recent years a number of new techniques have been evolved to minimize cash holding of the firm.

SCOPE OF THE STUDY

Cash management refers to a systematic way of handling cash inflows and outflows resulting from business operations. Understanding the basic concepts of cash management will help business enterprises to plan for the unforeseen eventualities that nearly every business faces.

Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.

$$\boxed{\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}}$$

Current assets listed on a company's balance sheet include cash, accounts receivable, inventory, and other current assets (OCA) that are expected to be liquidated or turned into cash in less than one year.

Current liabilities include accounts payable, outstanding wages, taxes payable, short-term debts, and the current portion of long-term debt.

Cash Ratio

The cash ratio is a measurement of a company's liquidity. It specifically calculates the ratio of a company's total cash and cash equivalents to its current liabilities. The metric evaluates company's ability to repay its short-term debt with cash or near-cash resources, such as easily marketable securities. This information is useful to creditors when they decide how much money, if any, they would be willing to loan a company.

$$\boxed{\text{Cash Ratio} = \text{Cash and Cash Equivalents} / \text{Current Liabilities}}$$

Quick Ratio

The quick ratio is an indicator of a company's short-term liquidity position and measures a company's ability to meet its short-term obligations with its most liquid assets.

Liquid assets are those current assets that can be quickly converted into cash with minimal impact on the price received in the open market, while current liabilities are a company's debts or obligations that are due to be paid to creditors within one year. It is also called the acid testratio.

$$\boxed{\text{Quick Ratio} = \text{Liquid Assets} / \text{Current Liabilities}}$$

Debtors Turnover Ratio

debtors turnover ratio is also known as Accounts Receivables Turnover. This indicates the number of times average debtors have been converted into cash during a year. This is also referred to as the efficiency ratio that measures the company's ability to collect revenue.

Debtors Turnover Ratio = Net Credit Sales / Average Trade receivables

Working Capital Turnover Ratio

Working capital turnover is a ratio that **measures how efficiently a company is using its working capital to support sales and growth**. Working capital turnover measures the relationship between the funds used to finance a company's operations and the revenues a company generates to continue operations and turn a profit.

Working Capital Turnover Ratio = Sales / Average Working Capital

Inventory Turnover Ratio

The inventory turnover ratio, also known as the stock turnover ratio, is an efficiency ratio that **measures how efficiently inventory is managed**. The inventory turnover ratio formula is equal to the cost of goods sold divided by total or average inventory to show how many timesinventory is "turned" or sold during a period.

Inventory Turnover Ratio = Cost of Goods sold / Average Inventory

SUGESSTIONS

• Though the company has increased its current ratio in the year 2022 , the companyhas to maintain the ideal ration of 2:1 which means the current assets should be double the current liabilities

• In the case of cash ratio the company has not maintained the standard ratio of 0.5:1 in any of the previous years hence company should increase the cash ratio for the futureperiod

• In the case of quick ratio the company has to maintained the standard ratio of 1:1 which means the company should have the same amount of liquid assets as currentliabilities.

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