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COIMBATORE-641 035, TAMIL NADU

19BAE711 – Working Capital Management

Unit IV – Cash & Receivables Management

2 MARKS

1. **What is cash management?**

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 ensuring a company's financial stability and solvency. Corporate treasurers or business managers are frequently responsible for overall cash management and the related responsibilities to remain solvent.

2. **Define cash management.**

Cash management is the efficient collection, disbursement, and investment of cash in an organization while maintaining the company's liquidity. In other words, it is the way in which a particular organization manages its financial operations such as investing cash in different short-term projects, collection of revenues, payment of expenses, and liabilities while ensuring it has sufficient cash available for future use.

3. **What is meant by cash budget?**

A cash budget is an estimation of the cash inflows and outflows for a business over a specific period of time, and this budget is used to assess whether the entity has sufficient cash to operate. Companies use sales and production forecasts to create a cash budget, along with assumptions about necessary spending and accounts receivable. If a company does not have enough liquidity to operate, it must raise more capital by issuing stock or by taking on debt.

4. **What are the three methods of preparing cash budget?**

- Receipts and Payments Method. Under this method, cash budget is prepared in columnar basis
- Adjusted Profit and Loss Method. This method is also called the cash flow statement.
- Balance sheet method.

5. **What is cash cycle?**

The cash cycle refers to the timing between when a company makes an investment in inventory and the time it actually collects cash with respect to sales of that inventory. For any company, whether profitable, distressed or in bankruptcy, the quicker it can get cash in the door the better.

Cash cycle = average age of inventory+ average age of receivables-average age of payables.

6. **What is cash turn over?**

Cash Turnover is the amount of times a company has spent through its cash during the reporting period. We calculate cash turnover based on a company's revenues over the average cash balance during that period.
High cash turnovers can mean that a company is going through its cash cycles quickly. Cash turnover = no of days in operating period/duration of cash cycle in days.

7. **What is lock – box system?**

A lockbox is a bank-operated mailing address to which a company directs its customers to send their payments. The bank opens the incoming mail, deposits all received funds in the company's account, and scans the payments and any remittance information. The scanned images are posted to a secure website, where the company's accounting staff can access the images to apply payments to outstanding accounts receivable.

8. **What is economic order quantity?**

Economic order quantity (EOQ) is an equation for inventory that determines the ideal order quantity a company should purchase for its inventory given a set cost of production, demand rate and other variables. This is done to minimize variable inventory costs, and the formula takes into account storage, or holding, costs, ordering costs and shortage costs. The full equation is as follows:EOQ=√2ab/cs.

9. What is Miller- Orr cash management model?

The Miller and Orr model of cash management is one of the various cash management models in operation. It is an important cash management model as well. It helps the present day companies to manage their cash while taking into consideration the fluctuations in daily cash flow

10. What is optimum cash balance?

A firm has to maintain sufficient liquidity by managing minimum cash balance. Firm needed cash to pay suppliers of raw materials, pay salaries and other expenses as well as paying interest, tax and dividends. Sufficient liquidity means the availability of cash to pay the firm obligations in time. Generally, the minimum cash balance is equal to the cash needed for transaction plus safety cash that can be maintained based on firm's past experience. Maintenance of cash balance provides sufficient liquidity but involve opportunity cost (loss of interest), whereas less cash balance maintenance weakens liquidity and involves profitability. A firm has to maintain optimum cash balance. Optimal cash balance is that cash balance where the firm's opportunity cost equals to transaction cost and the total cost are minimum.

11. What is meant by Receivable?

When goods and services are sold under an agreement permitting the customer to pay for them at a later date, the amount due from the customer is recorded as accounts receivables; So, receivables are assets accounts representing amounts owed to the firm as a result of the credit sale of goods and services in the ordinary course of business. The value of these claims is carried on to the assets side of the balance sheet under titles such as accounts receivable, trade receivables or customer receivables.

12. What is Receivable management?

Receivable management is the process of making decisions relating to investment in trade debtors. Certain investment in receivables is necessary to increase the sales and the profits of the firm.

13. Define Accounts Receivables.

According to Robert N. Anthony, "Accounts receivables are amounts owed to the business enterprise, usually by its customers. Sometimes it is broken down into trade accounts receivables; the former refers to amounts owed by customers, and the latter refers to amounts owed by employees and others".

14. What is credit sanction?

Receivables are a type of investment made by a firm. Like other investments, receivables too feature a drawback, which are required to be maintained for long that it known as credit sanction. Credit sanction means tie up of funds with no purpose to solve yet costing certain amount to the firm.

15. What are the aspect of credit policy?

Changes of extending credit to those with week credit rating.
Unduly long credit terms.
Tendency to expand credit to suit customer's needs; and
Lack of attention to over dues accounts.

16. What do you mean by capital cost?

There is no denying that maintenance of receivables by a firm leads to blockage of its financial resources due to the tie log that exists between the date of sale of goods to the customer and the date of payment made by the customer. But the bitter fact remains that the firm has to make several payments to the employees, suppliers of raw materials and the like even during the period of time lag. As a consequence, a firm is liable to make arrangements for meeting such additional obligations from sources other than sales. Thus, a firm in the course of expanding sales through receivables makes way for additional capital costs.

17. What is credit policy?

A firm practicing lenient or relatively liberal credit policy its size of receivables will be comparatively large than the firm with more rigid or signet credit policy

18. What is mean by collection policy?

R.K. Mishra States, "A collection policy should always emphasize promptness, regulating and systematization in collection efforts. It will have a psychological effect upon the customers, in that; it will make them realize the obligation of the seller towards the obligations granted.

19. What is the formula of Receivable turnover ratio?

Receivables Turnover Ratio = Net Sales

Average Accounts Receivables

20. What do you mean by Average collection period?

The average collection period refers to the average time lag between sales and collection measurable in terms of number of days. In other words, it may be regarded as rough estimate of number of a debtor. Hence, it is a significant measure of the collection activity and quality of. Collection of book debts is the concluding stage in the function of sales transaction.

16 MARKS

1. What are the objectives cash management?
2. What are the functions of cash management?
3. Discuss about cash forecasting and budgeting?
4. What are the cost control techniques?
5. How to determine the optimum cash balance?
6. What are the motives of holding cash?
7. What are the classifications of costs for management decision making?