

A STUDY ON CASH MANAGEMENT ANALYSIS OF GOLDLINE EXPORTS PRIVATE LIMITED AT KARUR

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ABSTRACT

Cash is the life blood of a business firm; it is needed to acquire supplies, resources, equipment and other assets used in generating the product and services provided by the industry. More fundamentally, cash is the medium of exchange which allows management to carry on the various activities of the firm from day to day. Without cash or at least access to it, bankruptcy becomes a grim possibility. Cash management refers to management of cash balance and bank balance and also includes the shortterm deposit. The cash is obviously the most important current assets, as it is the most liquid and can be used to make immediate payments. Insufficiency of cash at any stage may prevent a firm from discharging its liabilities or force it to sell its other assets immediately. On the other hand, extreme liquidity may take the firm to make uneconomic investments. Therefore, cash management is very essential for every business.

Keywords: cash, cash management, ratio

1. INTRODUCTION

1.1 INTRODUCTION OF THE STUDY

Finance is one of the most primary requisites of a business and the modern management obviously depends largely on the efficient management of the finance. Financial statements are prepared primarily for decision making. They play a dominant role in setting the framework of managerial decisions. At the right time to preserve solvency from the right sources and at the right cost of capital.

The term financial analysis is also known as analysis and interpretation of financial statements' refers to the process of determining financial strength and weakness of the firm by establishing strategic relationship between the items of the Balance Sheet, Profit and Loss account and other operative data. The purpose of financial analysis is to diagnose the information contained in financial statements so

as to judge the profitability and financial soundness of the firm.

DEFINITION

A way that a company will manage all aspects of the financial end of the business, such as the collection of revenue as well as the investing of the company's cash and other assets this helps businesses to stay afloat financially

INTRODUCTION TO FINANCIAL MANAGEMENT

Financial Management can be defined as

According to Howard & Upton, "Financial Management is the application of the planning & control functions of the finance functions". Taking a commercial business as the most common organisational structure, the key objectives of financial management would be to:

- Create wealth for the business
- Generate cash
- Provide an adequate return on investment bearing in mind the risks that the business is taking and the resources invested

Meaning of Cash

Cash may be in any form of currency, like banknotes and coins, which have a legal acceptance and recognition in the market. The acceptance of cash by its user indicates that it has a trading value when tendered for purchase of goods and services.

In bookkeeping and finance, cash refers to current assets comprising currency or currency equivalents that can be accessed immediately or near-immediately (as in the case of money market accounts). Cash is seen either as a reserve for payments, in case of a structural or incidental negative cash flow or as a way to avoid a downturn on financial markets.

Cash Management

Cash management refers to a broad area of finance involving the collection, handling, and usage of cash. It involves assessing market liquidity, cash flow, and investments.

In banking, cash management, or treasury management, is a marketing term for certain services related to cash flow offered primarily to larger business customers. It may be used to describe all bank accounts (such as checking accounts) provided Cash to businesses of a certain size, but it is more often used to describe specific services such as cash concentration, zero balance accounting, and automated clearing house facilities. Sometimes, private banking customers are given cash management services.

Financial instruments involved in cash management include money market funds, treasury bills, and certificates of deposit. Cash management is a broad area having to do with the collection, concentration, and disbursement of cash including measuring the level of liquidity, managing the cash balance, and short-term investments.

COMPONENTS OR ELEMENTS

Cash management in troubled times

During downturns in the economy, declines in sales and poor cash management can spell the death knell to a small or startup business. In tough times, such as the recession of 2008-09, banks may tighten up the revolving credit or short-term loans that businesses often rely on to sort out cash management troubles. Some business owners resort to trying to keep their companies afloat by raiding their personal finances -- mortgaging their homes, maxing out credit cards, and/or cashing in their 401(k) s.

Even during economic boom times, many small businesses experience cash flow difficulties, especially during their first years of operation. But entrepreneurs and managers can take steps to minimize the impact of such problems and help maintain the continued viability of the business. Suggested steps to address temporary cash flow problems include:

Offer small discounts for prompt payment.

Consider compromising on some billing disputes with clients. Small business owners are understandably reluctant to consider this step, but in certain cases, obtaining some cash-; even if your company is not at fault in the dispute-;for products sold/services rendered may be required to pay basic expenses.

Closely monitor and prioritize all cash disbursements.

Contact creditors (vendors, lenders, and landlords) and attempt to negotiate mutually satisfactory arrangements that will enable the business to weather its cash shortage (provided it is a temporary one). In some cases, you may be able to arrange better payment terms from suppliers or banks. "Better credit terms translate into borrowing money interest-free," states the *Journal of Accountancy*.

Liquidate superfluous inventory.

Assess other areas where operational expenses may be cut without permanently disabling the business, such as payroll or non-strategic goods and/or services with small profit margins.

METHODS

Collection and Disbursement

Cash collection systems aim to reduce the time it takes to collect the cash that is owed to the

firm (for example, from its customers). The time delays are categorized as mail float, processing float, and bank float. Obviously, an envelope mailed by a customer containing payment to a supplier firm does not arrive at its destination instantly. Likewise, the moment the firm receives payment it is not deposited in its bank account. And finally, when the payment is deposited in the bank account oftentimes the bank does not give immediate availability to the funds.

Cash management attempts, among other things, to decrease the length and impact of these "float" periods. A collection receipt point closer to the customer-;perhaps with an outside third-party vendor to receive, process, and deposit the payment (check)-;is one way to speed up the collection. The effectiveness of this method depends on the location of the customer; the size and schedule of its payments; the firm's method of collecting payments; the costs of processing payments; the time delays involved for mail, processing, and banking; and the prevailing interest rate that can be earned on excess funds. The most important element in ensuring good cash flow from customers, however, is establishing strong billing and collection practices.

Once the money has been collected, most firms then proceed to concentrate the cash into one center. The rationale for such a move is to have complete control of the cash and to provide greater investment opportunities with larger sums of money available as surplus. There are numerous mechanisms that can be employed to concentrate the cash, such as wire transfers, automated clearinghouse (ACH) transfers, and checks. The tradeoff is between cost and time.

Another aspect of cash management is knowing a company's optimal cash balance. There are a number of methods that try to determine this magical cash balance, which is the precise

amount needed to minimize costs yet provide adequate liquidity to ensure bills are paid on time (hopefully with something left over for emergency purposes). One of the first steps in managing the cash balance is measuring liquidity, or the amount of money on hand to meet current obligations. There are numerous ways to measure this, including: the Cash to Total Assets ratio, the Current ratio (current assets divided by current liabilities), the Quick ratio (current assets less inventory, divided by current liabilities), and the Net Liquid Balance (cash plus marketable securities less short-term notes payable, divided by total assets). The higher the number generated by the liquidity measure, the greater the liquidity; and vice versa. However, there is a tradeoff between liquidity and profitability which discourages firms from having excessive liquidity.

Optimal cash balance

Another aspect of cash management is knowing the optimal cash balance. There are a number of methods that try to determine the magical cash balance, which should be targeted so that costs are minimized and yet adequate liquidity exists to ensure bills are paid on time (hopefully with something left over for emergency purposes). One of the first steps in managing the cash balance is measuring liquidity.

Cash Flow

Cash Flow refers to the flow of cash into and out of a business over a period of time. The outflow of cash is measured by the money you pay every month to salaries, suppliers, and creditors. The inflows are the cash you receive from customers, lenders, and investors.

Positive Cash Flow

If the cash coming into the business is more than the cash going out of the business, the company has a positive cash flow.

Negative Cash Flow

If the cash going out of the business is more than the cash coming into the business, the company has a negative cash flow

A Cash Flow Statement is typically divided into three components

1. Operating Cash Flow (Internal)

Operating cash flow, often referred to as working capital, is the cash flow generated from internal operations. It is the cash generated from sales of the product or service of your business. Because it is generated internally, it is under your control.

2. Investing Cash Flow (Internal)

Investing cash flow is generated internally from non-operating activities. This component would include investments in plant and equipment or other fixed assets, nonrecurring gains or losses, or other sources and uses of cash outside of normal operations.

3. Financing Cash Flow (External)

Financing cash flow is the cash to and from external sources, such as lenders, Investors and shareholders. A new loan, the repayment of a loan, the issuance of stock and the payment of dividend are some of the activities that would be included in this section of the cash flow statement.

Effective cash management

- Knowing when, where, and how your cash needs will occur,
- Knowing what the best sources are for meeting additional cash needs; and, Being prepared to meet these needs when they occur, by keeping good relationships with bankers and other creditors.

PROCESS

Function of cash management

"Cash management is concerned with minimizing unproductive cash balances, investing temporarily excess cash advantageously and to make the best possible arrangements for meeting planned and unexpected demands on the firm's cash."15 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. All these aims and motives of cash management largely depend upon the efficient and effective functioning of cash management. Cash management functions can be studied under five heads, namely, cash planning, managing cash flow, controlling cash flow, optimizing the cash level and investing idle cash. All these functions are discussed below in details:

1. Cash Planning

Good planning is the very foundation of attaining success. For any management decision, planning is the foremost requirement. "Planning is basically an intellectual process, a mental predisposition to do things in an orderly way, to think before acting and to act in the light of facts rather than of a guess." 16 Cash planning is a technique, which comprises of planning for and controlling of cash. It is a management process of forecasting the future need of cash, its available resources and various uses for a specified period.

Cash planning, thus, deals at length with formulation of necessary cash policies and procedures in order to carry on business continuously and on sound lines. Good cash planning aims at providing cash, not only for regular but also for irregular and abnormal requirements.

2. Managing Cash Flows

The heading simply suggests an idea of managing properly the flow of cash coming inside the business i.e. cash inflow and cash moving out of the business i.e. cash outflow. These two are said to be properly managed only, if a firm succeeds in accelerating the rate of cash inflow together with minimizing the cash outflow. As observed expediting collections, avoiding unnecessary inventories, improving control over payments etc. contribute to better management of cash. Whereby, a business can conserve cash and thereof would require lesser cash balance for its operations.

3. Controlling the Cash Flows

As forecasting is not an exact science because it is based on certain assumptions. Therefore, cash planning will inevitably be at variance with the results actually obtained. For this reason, control becomes an unavoidable function of cash management. Moreover, cash controlling becomes essential as it increases the availability of usable cash from within | the enterprise. As it is obvious that greater the speed of cash flow cycle, I greater would be the number of times a firm can convert its goods and ' services into cash and so lesser will be the cash requirement to finance the desired volume of business during that period. Furthermore, every enterprise is in possession of some hidden cash, which if traced out substantially decreases the cash requirement of the enterprise.

4. Optimizing the Cash Level

A financial manager should concentrate on maintaining sound liquidity position i.e. cash level. All his efforts relating to planning, managing and controlling cash should be diverted towards maintaining an optimum level of cash. The foremost need of maintaining optimum level of cash is to meet the necessary requirements and to settle the obligations well in time. Optimization of cash level may be related to establishing equilibrium between risk and the related profit expected to be earned by the company.

5. Investing Idle Cash Idle cash or surplus cash refers to the excess of cash inflows over cash outflows, which do not have any specific operations or any other purpose to solve currently.

1.4 STATEMENT OF THE PROBLEM

- Cash management encompasses how a company manages its operations or business activities, financial investments, and financing activities.
- A company has to generate adequate cash flow from its business in order to survive, meaning it is able to cover its expenses, repay investors, and expand the business.
- In addition to generating cash from its activities, a business also needs to manage its cash situation so that it holds the right amount of cash to meet its immediate and long-term needs

1.5 OBJECTIVES OF THE STUDY

PRIMARY OBJECTIVE

A study on cash management analysis of

Sales

Working capital turnover ratio

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Goldline Exports Private Limited at Karur

SECONDARY OBJECTIVES

- To study the cash management in textile industry.
- To determine how short term / current obligations of the company are met by the liquidity ratio
- To know the short term solvency position and the trend.
- To meet the cash disbursement needs.
- To understand the proportion of the components of current assets.
- To know the effective utilization of assets in day-to-day activities.
- To make suggestion and recommendation to improve the cash position of the company

I. RATIO ANALYSIS

TURNOVER RATIOS

The turnover ratios or activity ratios indicate the efficiency with which the capital employed is rotated in the business. The overall profitability of the business depends on two factors: (i) the rate of return of capital employed; and (ii) the turnover, i.e., the speed at which the capital employed in the business rotates.

4.1 WORKING CAPITAL TURNOVER RATIO

Working capital of a concern is directly related to sales (i.e.) the current assets like debtors, bills receivables, cash, stock etc., and change with the increase (or) decrease in sales.

Working capital =Current assets-Current liabilities

This excess of current assets over current liabilities is referred to as net working capital. Working capital turnover ratio indicated the

velocity of the utilization of net working capital. This ratio indicated the number of times the working capital is turned over in the course of a year. A higher ratio indicates efficient utilization of working capital and a low ratio indicated otherwise.

Working capital

TABLE NO 4.1

WORKING CAPITAL TURNOVER RATIO

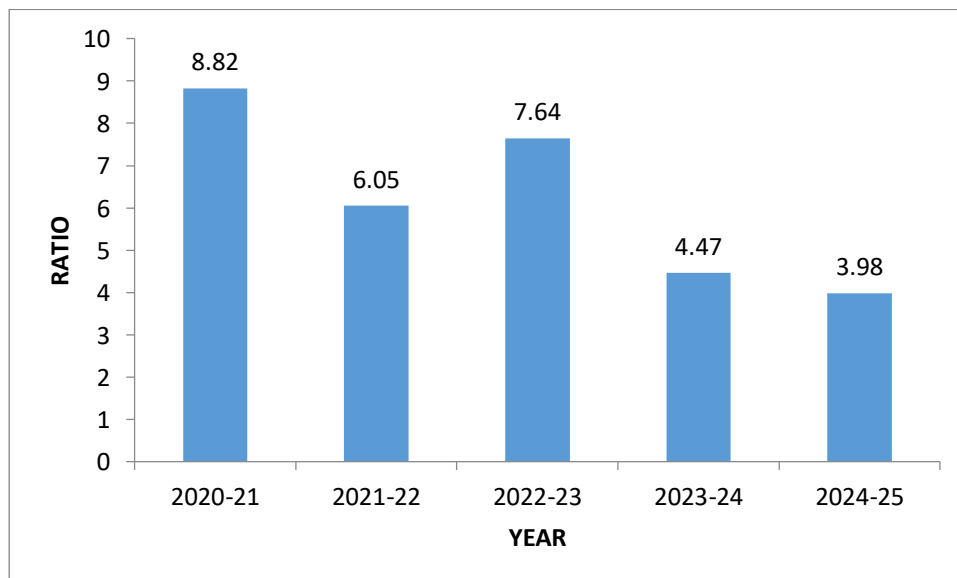
Year	Sales	Networking capital	Ratio
2020-21	316.00	35.81	8.82
2021-22	592.99	97.99	6.05
2022-23	773.40	101.23	7.64
2023-24	844.47	188.72	4.47
2024-25	654.39	164.32	3.98

Sources: Secondary data

INTERPRETATION

From the above table shows that the working capital turnover ratio is 8.82 in 2020-21 and decreased to 6.05 in 2021-22 and then increased to 7.64 in 2022-23 then last year decreased to 3.98. This shows working capital turnover ratio is decrease level.

4.1. WORKING CAPITAL TURNOVER RATIO



4.2 DEBTORS TURNOVER RATIO

The liquidity position of a concern to pay its short term obligations in time depends upon the quality of its debtors. Debtors turn ratio indicates the velocity of debtors collection firm (i.e.) it indicates the number of times average debtors are turned over during a year.

Sales

Debtors turnover ratio = -----

Average Debtors + Bills Receivable

TABLE NO 4.2 DEBTORS TURNOVER RATIO

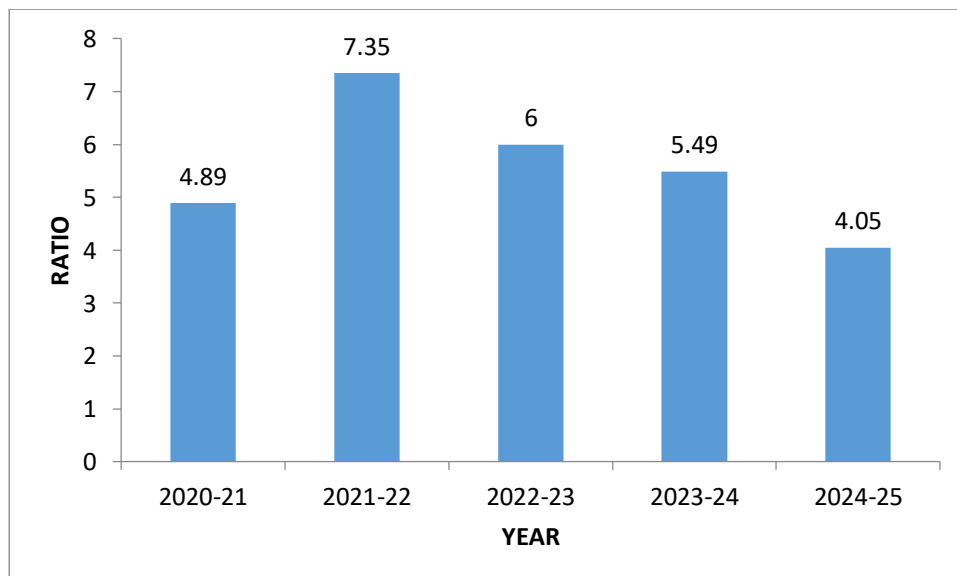
Year	Sales	Average Debtors	Ratio
2020-21	316.00	64.57	4.89
2021-22	592.99	80.62	7.35
2022-23	773.40	128.9	6.00
2023-24	844.47	153.77	5.49
2024-25	654.39	161.39	4.05

Sources: Secondary data

INTERPRETATION:

From the above table shows that the Debtors turnover ratio lays within its lower limit. The ratio shows lowest as 4.05 at 2024-25 and shows highest as 7.35 at 2021-22 and there is no standard norm for Debtors turnover ratio. Debtors turnover ratio is Decreasing trend.

CHART NO 4.2 DEBTORS TURNOVER RATIO



4.3 DEBTORS COLLECTION PERIOD

Debtor’s conversion period or Debtor Collection Period is the average time taken to convert debtors into cash.

Days in Year

Debtors Collection Period = -----

Receivable Turnover Ratio

TABLE NO 4.3 DEBTORS COLLECTION PERIOD

Year	No of days in year	Receivable turnover ratio	Debtors collection period(in days)
2020-21	365	4.89	75
2021-22	365	7.35	50
2022-23	365	6.00	61
2023-24	365	5.49	66
2024-25	365	4.05	90

Sources: Secondary data

INTERPRETATION

The above chart shows Debtor Collection Period, the higher and shorter collection period, better the liquidity of the debtors. In other words higher and shorter collection period convey quick collection debtors. In the above financial year 2020-21 and 2024-25 was collection period is increased.

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