

An analysis on cash management at standard polymers Puducherry

Dr. C Balaji

Assistant Professor of Commerce, A.V.C. College (Autonomous), Mannampandal – 609305, Mayiladuthurai, Tamilnadu, India

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.

Keywords: Analysis, Cash Management, profit, sales

Introduction

"Cash, like the blood stream in the human body, gives vitality and strength to business enterprises. "1 Though cash hold the smallest portion of total current assets. However, "Cash is both the beginning and end of working capital cycle - cash, inventories, receivables and cash."2 ' it is the cash, which keeps the business going. Hence, every enterprises has to hold necessary cash for its existence.3 Moreover, "Steady and healthy circulation of cash throughout the entire business operations is the basis of business solvency." A Now-a-days non-availability and high cost of money have created a serious problem for industry. Nevertheless, cash like any other asset of a company is treated as a tool of profit.

Need For the Study

The importance of Cash management in any industrial concern cannot be overstressed. Under the present inflationary condition, management of Cash is perhaps more important than even management of profit and this requires greatest attention and efforts of the finance manager. It needs vigilant attention as each of its components require different types of treatment and it throws constant attention on exercise of skill and judgment, awareness of economic trend etc, due to urgency and complicity the vital importance of Cash. Hence, the present study entitled "An Analysis on Cash Management" has been taken up.

Objectives of the Study

Primary Objective

- ✓ To analyze the cash management of Standard Polymers.
- ✓ Secondary Objective:
- ✓ To find out the liquidity position of the concern through ratio analysis.
- ✓ To study the growth of standard polymers in terms of cash flow statement.
- ✓ To make suggestion and recommendation to improve the cash position of standard polymers.

Data Collection

Primary Sources

Data are collected through personal interviews and discussion with Finance- Executive.

Data are collected through personal interviews and discussion with Material Planning- Deputy Manager.

Secondary Sources

From the annual reports maintained by the company. Data are collected from the company's website. Books and journals pertaining to the topic

Data Analysis & Interpretation

Ratio Analysis

Ratio Analysis is a powerful tool of financial analysis. A Ratio is defined as "the indicated quotient of two mathematical expressions" and as "the relationship between two or more things". In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm.

Ratio helps to summarize large quantities of financial data and to make qualitative judgment about the firm's financial performance.

Ratio Analysis

Current Assets to Fixed Assets Ratio

The formula for the ratio is $\frac{\text{Current Assets}}{\text{Fixed Assets}}$

Current Assets to Fixed Assets Ratio

YEAR	RATIO	Increase/ Decrease
2002 – 03	0.94:1	
2003 – 04	0.72:1	-0.22
2004 – 05	1.55:1	0.82
2005 – 06	1.28:1	-0.27
2006 – 07	1.62:1	0.34

The level of Current Assets can be measured by using this Current Asset to Fixed Assets Ratio. The level has been fluctuating every year.

Cash to Current Assets Ratio

The formula for the ratio is $\frac{\text{Cash}}{\text{Current Assets}}$

Cash to Current Assets Ratio

YEAR	RATIO	Increase/ Decrease
2002 – 03	0.006:1	
2003 – 04	0.015:1	0.09
2004 – 05	0.01:1	-0.14
2005 – 06	0.003:1	- 0.007
2006 – 07	0.013:1	0.01

Inference

The table shows the details of Cash to Current Assets Ratio and registered a fluctuating trend throughout the study period from 2011-2012 to 2014-15.

Hence we find that STANDARD POLYMERS had maintained a moderate level of cash in proportion to Current Assets.

Cash to Sales Ratio

The formula for the ratio is $\frac{\text{Cash}}{\text{Sales}}$

Cash to Sales Ratio

YEAR	RATIO	Increase / Decrease
2002 – 03	0.0007:1	
2003 – 04	0.0026:1	0.0019
2004 – 05	0.0028:1	0.0002
2005 – 06	0.0069:1	0.0041
2006 – 07	0.0064:1	- 0.0005

Inference

This is one of the important ratios of controlling cash. A study of cash to sales ratio will provide a deep insight into the cash balances held in the concerns.

Evident from the table shows Cash to Sales registered a fluctuating trend throughout the study period.

Findings

- ✓ The cash management of STANDARD POLYMER has been working well in the organization.
- ✓ The Funds from operations of a company has been increased from year by year.
- ✓ The cash from operations has been find that it used as efficient.
- ✓ The cash inflow and outflow of cash flow statement have a cash balance will be increased 4.2 times when compared to last year balance.
- ✓ Current Ratio shows that the company has sufficient funds to meet its short-term obligations.

Suggestions

- ✓ STANDARD POLYMER should try to match their Cash with the sales. In case of surplus Cash, it should be invested either in securities or should be used to repay borrowings.
- ✓ The company should try to prepare a proper ageing schedule of debtors. This will help them to reduce the bad debts and speed up collection efforts.
- ✓ The company should be prompt in making payments so as to enjoy cash discount opportunities

Conclusion

The company should determine the optimum cash balance to be kept. The Cash Management Analysis done on the financial position of the company has provided a clear view on the activities of the company. The use of the ratio analysis, trend analysis, Cash Flow Statement and other accounting and financial management helped in this study to find out the financial soundness of the company.

References

1. Maheshwari SN. Financial management, Eleventh Edition Sultan Chaqnd & Sons, Educational Publishers. New Delhi 2006.
2. Pandey IM. Financial management, Ninth Edition, Vikas publishing house pvt Ltd.
3. Khan MY, PK Jain, Management Accounting, Third edition, Tata Mc Graw-Hill Publishing co. Ltd
4. BL Gupta. Management of Liquidity and Profitability, Arihant Publishing House, Jaipur.