Cash management and short term financing

Business, Management

Running head: CASH MANAGEMENT AND SHORT-TERM FINANCING Cash Management and Short-term Financing University of Phoenix Cash Management and Short-term Financing Structured cash management and efficient short-term financing are both beneficial and important for a company to remain competitive in the market; this will help increase potential profit and shareholder value with the rising stock. Cash management is a tool for the company can use to manage idle funds (cash balances) that are not generating revenue giving the company the ability to use the freed cash to build sources for short-term financing through interest building securities.

Cash management techniques include marketable securities, international cash management, collection/disbursement float, and Electronic Funds Transfer. Short-term financing give the company the ability to secure cash needed for production enabling the company to maximize profitability. Short-term financing methods include inventory financing, commercial paper, trade credit, bank loans, receivables financing, foreign borrowing.

Cash management Techniques Float is the difference between the recorded available cash and the amount that has been credited by the bank, this results in a time delay when dealing with banking system and the mail service and clearing checks. A company will use the float to minimize collection times and increase disbursement dates to give them more time with the cash on hand to use in interest building securities. Electronic Funds Transfer is quickly replacing the out-dated check system, with the EFT system the ease of electronically deposited funds; this reduces the lag or down time traditionally associated with the manual check.

This system increases the efficiency of the banking system and decreases float times for the company. International cash management allows the company to depositmoneyin countries with a high interest rate returns. This allows the company to invest in high return loans in a source of generating additional revenue. Marketable securities turn non-generating cash into interest generating revenue through CD'S, treasury notes, treasury bills, savings deposits, Eurodollar deposits and commercial paper.

The techniques used in cash management are used to reduce or eliminate unwanted cash balances that do not generate revenue and turn them into interest earning securities. Collections control and management is vital in eliminating unwanted cash balances, the entire purpose is for the company to retain the highest rate of cash solvency to maximize profitability. Companies have reduced the use of " float" methods with the increase of EFT's, time is not an issue with the EFT, and this transition takes place immediately.

However, both float and Electronic Funds Transfer can be used in collections to maximize return. International cash management allows the company to reach for the highest interest rate of return not found in the United States, the use of this technique is more challenging; the ability to manage funds through different geographical locations and time zones can be extensive. The International cash is always susceptible to currency fluctuations, interest rate changes that could end in a lesser value than originally deposited.

The International cash management runs at a high risk for the company but also has the potential for the largest gain. Marketable securities are a good technique for cash management but run the risk of company loss with increasing interest rates. Trade credit occurs when a seller or manufacturer of goods extends credit to the company in the form of accounts payable. Bank loans can be used to provide the necessary cash to implement expansion or new product development. Commercial paper is a certificate issued to the investor, by the company; this constitutes a debt that will be repaid.

Foreign borrowing lets a company seek outside the normal parameter to obtain loans at a lower rate. Inventory and receivables financing let the company try to get based on their current asset value. Between all the financing options Trade credit constitutes approximately 40% of all short term credit to companies with trade credit a company can take advantage of discounts when the payments are made in a timely fashion, this give the company flexibility in deciding on how long to carry their credit debt. Both bank loans and trade credit are short-term provide immediate funds of financing.

However, bank loans are at risk of requiring a higher compensating balance, which lowers the amount of actual money lent to the company. Commercial paper methods of financing have the advantage of being issued below the prime interest rate that banks charge. Commercial paper does not have the challenge of compensating balance requirements but the paper can be lost, stolen, misplaced, or damaged. The commercial paper process has mostly been replaced by a computerized version. Foreign borrowing, like the other techniques, is also short-term but runs the risk of foreign currency inflation or fluctuations.

The use of receivables and inventory as collateral in financing is also short-term. Receivable has the advantage when the asset level inflates, as the value increase the amount of money increase that the company can borrow against. The uses of short-term financing or cash management both maintain the goal of ensure sufficient funds the company will need to maximize profitability. Cash management utilizes control over the receipt and payment of cash as to minimize non-earning cash balances and to capitalize the freed up cash in interest earning modes.