Cash case study

Education

Cash

Cash can be described as the availablemoneythat an individual or business may be having in hand and which can be used to purchase anything or invested to generate other sources of money. The term cash has a broad meaning in business than to an individual. Cash is termed as an asset in a business and is considered a current asset (Heyler, & Reider, 2003). The movement of money in and out of business is referred to as cash flow. In a business organization or project, a small amount of money may be held as tills or even petty cash and can be used to settle minor bills in the organization.

In a balance sheet, the heading of cash may consist of several items under it with varying liquidity. In business, cash may be held as petty cash within the business whereas the surplus of cash is put on bank or may be invested in other beneficial ways (Heyler, & Reider, 2003). Some of the cash in business may be invested in liquid forms so that the business can use it as the need arises whereas the surplus of cash may be tied up in the back for a longer period.

For the debtors, the amount of money held as cash depends on the type of business that the firm is operating in. Small firms such as retailers may be having a higher level of liquid cash than the large firms that mostly operate on a credit basis, thus they rarely handle liquid cash such as coins and notes (Heyler, & Reider, 2003). Cash in a business entity is considered as equal to other forms of current assets such as debtors and stocks since they are easily convertible to liquid cash.

Negative cash flow refers to when a person loses money for a certain duration of time. An example of negative cash flow includes paying off loans or mortgage. Negative cash flow may be positive since one may incur a cost for a certain period which may follow many benefits in the future (Heyler, & Reider, 2003). Let assume one wants to buy a house through a mortgage, he may pay a little down payment and continue paying the rest of the money in small amounts either monthly or according to the terms and condition of the agreement.

Consider one purchasing afamilyhouse for $250, 000 having six bedrooms and three bathrooms that can be rented for $1500 per month. Assume you make a down payment of 30% which would be around $90, 000 when buying this house. This will leave you with a mortgage of $150, 000. At an interest rate of 6. 5 %, your payment with insurance and taxes would be around $1200 (PITI). Let us assumes the vacancy and maintenance costs of around $200 per month. Your total cost for you to own the property may add up to $1400 per month.

Taking the difference between $1500 rental income and $1400 which is your expense will give you $100 which is the positive cash flow per month. If within the first one year the house appreciates by 2%, it will earn you $5000 plus$1200 coming as positive cash flow. This will total to $6200 earned initially through the negative cash flow. This is an example of how negative cash flow can turn out to be positive. This is because one will incur costs initially while paying the mortgage and after paying the mortgage, the house will generate you positive cash flows throughout.

References

- Heyler, P., & Reider, R. (2003). *Managing Cash Flow: An Operational Focus.* New Jersey: John Wiley & Sons.