

# [Example of essay on cash use and provision](https://assignbuster.com/example-of-essay-on-cash-use-and-provision/)

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While cash is listed as a current asset on the balance sheet, cash within a business is closely associated with both the asset and liability side of the balance sheet (Lasher, 2011). The paper will now consider how cash within a business may be linked to both the concepts of assets and liabilities.

## Cash Provision

One key issue is to consider were a business obtains its cash from (Lasher, 2011). Sales revenue may be seen as one such source, in this case the business simply converts one form of current asset (inventories) into a more liquid form (cash) through the process of cash sales (Arnold, 2007). Other forms of obtaining cash however may see the creation of a liability. For instance, if a business takes out an overdraft then cash is made available to the business however, this in turn creates a liability to the bank in the form of debt.

## Cash Usage

Again cash may be seen as having uses on both the asset and liability side of the balance sheet. On the one hand, cash may be used to purchase assets within the business which include both fixed assets such as plant and machinery or current assets such as inventories and stock. On the other hand, cash may be used to reduce the liability side of the balance sheet by paying off trade creditors, short term forms of debt such as bank overdrafts or event long term liabilities such as paying back a long term loan early. While cash in its self may be seen as a non-productive asset, this paper has shown that it is the availability of cash to a business which essentially allows a business to maintain a healthy balance between the asset and liability side of the balance sheet (Arnold, 2007).

## References

Arnold, G. (2007). Essentials of corporate financial management. Harlow: FT Prentice Hall.

Lasher, W, R. (2011). Practical financial management. 6th ed. Australia: South-Western Cengage Learning.