

1 Motives

- **Transaction** - Cash for day to day transactions
- **Precautionary** - For unexpected expenses
- **Speculative** - To use for unexpected opportunities

2 Cash Operating Cycle

Inventory Days + Debtors Days - Creditors Days

Tells me how long it takes for my working capital to turn into cash

6 Top Tips

1. Understand the cash NEEDS before implementing a management strategy
2. High monthly outflows = Try to retain more cash
3. Low monthly outflows = Speculate with cash

Cash Management

3 Strategies to reduce cash conversion cycle

- Collect receivables ASAP
- Increase Inventory Turnover
- Delay paying Accounts Payables
- Reduce financial obligations such as interest bearing debt

4 Cost of Missed Discounts

Cash discount % / (100 - cash discount %) x 360 / (days between discount and payment date)

5 The Baumol Method

Establishes annual cash requirements. Formula:

$$\frac{B(T)}{Q} + \frac{I(Q)}{2}$$

Optimal withdrawal size:

$$Q = \sqrt{\frac{2BT}{I}}$$

- B - Transaction Cost of converting marketable securities to cash
- T - Annual Cash Demand
- Q - Optimal Withdrawal Size
- I - Opportunity cost of holding cash