Erasmus+

Creativity + Innovation & Technology

LESSON CONTENT TEMPLATE

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1. Lesson Document

Topic 7: Cash and Working Capital Management
Lesson 1

Cash

Introduction

One of the most important principles in financial management is a trade between risk and return as it relates to cash and working capital management. In this lesson, we will learn more about cash.

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Current assets, also known as gross working capital, include inventories receivables, prepaid expenses, and, of course, cash.
Current liabilities are debts that fall due within one year (12 months) and usually include debts, accrued payroll, accrued taxes, and portions of long-term amortized debt. (*Finance and Business Strategies for the Serious Entrepreneur*, 2008)
Cash flow management involves ongoing management assets such as receivables and inventories and current liabilities such as the number of liabilities.
The difference between current assets and current liabilities is called **net working capital**.(*Finance and Business Strategies for the Serious Entrepreneur*, 2008). We already talked about net working capital but let's remember what it encompasses.

Net working capital = Current assets - Current liabilities

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The main goal of cash flow management is to ensure that the company has enough cash to make all your payments.

Change in Cash Balance = Net Cash Flow = Sources of Cash – Uses of Cash

We've already talked about Cash Flow. So we can go further. What are Sources of Cash?

Sources of cash include the sale of cash, collection of receivables, other income, and borrowing. Uses of Cash include expenses such as payroll, stock purchase, utilities, benefits, taxes, and loan repayments.

Cash flow management involves managing cash from sales, tracking spending, and making decisions on the best form of working capital financing.

What do you need to do?

You need to make your customers pay as soon as possible and postpone payment to suppliers as long as possible without hurting your business relationships or suffering from punishment. This is one of the most difficult tasks for an entrepreneur.

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When we talk about cash the main question is: What is included in the cash balance?

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The **cash balance** includes petty cash, current and savings account balances and marketable securities, and retail cash. Now we will discuss these terms.

Petty Cash
Petty cash is a small amount of cash in the form of cash that is kept on hand and used to pay small expenses when needed. (*Book Entrepreneurial Finance Concepts and Cases*, 2020).

What are the benefits of using Petty Cash?
1. Suitable for smaller purchases.
2. An easy alternative to corporate cards at times.
3. It reduces the need for managers to pay out of pocket for purchases
4. Provides a convenient source of funds etc.

Petty cash can be used for some:
- Office Supplies
- Food and drink bought for the office
- Delivery/postage fee when sending a letter
- Reimbursement of costs to employees etc.

Cash on Hand
Cash on Hand includes cash held in cash registers. The biggest risk with cash on hand is the risk of robbery and theft.

Checking and Savings Accounts and Marketable Securities
Choosing a bank is an important decision. Factors that you need to consider while you are choosing your bank include convenience, fees, and the ability to grow with your business.

Conclusions

Cash is the most liquid of all company assets. This is what the company mainly uses to settle debts and acquire goods. By generating enough cash, a company can meet its daily business needs and avoid taking on debt.

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