Basics of Cash Management for Financial Management and Reporting

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ABSTRACT

This article studies the bases of cash management for the purposes of financial management and reporting. It uses the descriptive method to analyze the importance, basis, influence, connection and impact of cash management in relation with financial and reporting management. This study points to the vast effect of cash management on the survival of big companies, increase of stockholder’s fortune, prohibition and discovery of skullduggery, and enrichment of cash. Organizations have to pay heed to cash management and take it into account as a serious partner. Inspection bodies have to also boost the commitment of exposure for the sake of increasing clarity of cash and its equivalents and avoid innovative cash management.

INTRODUCTION

Losing opportunities are occasionally due to weak cash management and some of these opportunities may rarely reoccur. Cash for any organization is like blood for a man. Effective and productive management of cash is essential for organizations. Optimum cash management can minimize financial and general expenses of the organization. Cash management includes financial management, accounting management, internal audit and inspection, financial accounting and financial reporting.

This article describes the fundamental principles of cash management for the purposes of financial and reporting management. It also examines the importance of cash management for the management of any organizations along the financial and reporting management. This paper includes 9 parts. Part 1, cash management; part 2 discusses the efficiency of cash; part 3 explains the tools of cash management; part 4 analyzes the cash flow; part 5 classifies the cash flows and talks about how to present reports of the cash; part 6, reports of the cash flows resulting from operational activities; part 7, cash management and skullduggery; and in part 8, use of communicative skills and public relations for cash management is discussed. Part 9 includes the results and suggestions.

Efficient Cash Management:

The framework of financial management, which is the aim of any economical establishment, is based on this simple principle: “Hoping to earn more money from the economical company than the amount you have put in.” Thus financial management is looking for ways for the short- and long-term cash flows to produce increasing cash.

Efficient cash management means shortening the cash cycle to the extent possible. This deed reduces financial expenses such as lost opportunities due to lack of cash, interest expenses and cash activity revenue and yield.

Effective cash management includes following the guidelines below:

1. Providing the correct and accurate accounting activities for credits and debits and the remainder.
2. Avoiding the loss owing to skullduggery, embezzlement, misuse, or rubbery of cash.
3. Keeping enough amounts of cash for the cases to pay cash and having logical cash left for essential needs.
4. Investing the unused cash.

One of the purposes of cash management is to protect and utilize the cash against skullduggery and misuse and incompetence.

Efficiency of Cash:

Efficiency of cash is not automatically achieved. This efficiency is the result of anticipation and planning, management of circulating capital, decent internal audit system, cash analysis in comparison with the rivals, organizational management attitude, and revolution of the management strategy and so on.

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Three elements of cash include debits, credits and inventory, which have to be managed to maximize the efficiency of cash. Efficient cash management prepares the organization for the problems. The financial unit has to opt for the most economical way to increase the stockholders’ wealth.

Incoming cash flow includes:
1. Incomes
2. Miscellaneous incomes (investment and provision of financial resources)
3. Other incomes

Incoming cash flow includes:
1. Production expenses
2. Staff expenses
3. Investing expenses
4. Sales and distribution expenses
5. Central office expenses
6. Required expenses
7. Other expenses

Cash Management Tools:
Cash flow will determine the management and planning mechanism for prediction and this is the foundation of cash management.

One of the most effective tools for cash management is to predict the amount of required cash. The features of this tool are:
1. Centralization of income and output: cash sales and reception timetable of credit sales are accounted for.
2. Not considering non-cash expenses including amortization.
3. Activities of all departments.

Cash management includes two parts of financial reporting and financial management:

Financial reporting
1. Clerical cash
2. Mixture of cash/bank
3. Cash flow

Financial management
1. Cash flow project
2. Cash budget
3. Cash status
4. Control and management of credit

Cash management tools need to be related, reliable, strong, understandable, in time, and comparable.

Analysis of Cash Flow:
Cash is of great importance in daily contracts and transactions because it shows the general purchase power which often considered in economic transactions and applied in achieving the required resources. Cash can be consumed in the following cases: daily transactions, paying off the due debts, protection of the company against the unforeseen, paying the stocks interests, payment of capital assets, expenses, purchasing goods, receiving services, and the like. Reception of cash is carried out from supplying goods or services, loans from credit sources, and owners of capital. Management of input and output of cash is one of the most essential events which are the basis of decision-making. Reaching the goals of accounting and financial reporting requires a variety of resources of data and information which is brought about through basic financial records (profit and loss records, balance sheet, cash flow records, and general profit and loss records). Profit and loss records show the results of the operations of an economic company over a specified period of time and based on a commitment.

One of the objectives of cash flow records is get in the know with the increase or decrease of cash within a fiscal period. Cash according to the second manifest of Iran’s Financial Accounting Standard includes quick assets, and deposits with banks in Rieels or other currencies (including short-term investing deposits without usance). If the usance to pay back the excess is less than a working day, this is also considered cash.

Classification of Cash Flows and Presentation of Cash Reports:
Cash reports are to reflect cash events over a period under the headlines below:
1. Operational activities
2. Turnover of the investments and profit yielded for financial supply
3. Income tax
4. Investing activities
5. Financial provision activities
In presenting the cash flows, going through the headlines in order and coming up with the sum of the cash flow under each headline and before the headlines is necessary. Cash reports should also include adjustment reports of the beginning of the period and its end. The adjustment report like this has to show any foreign currency discrepancy resulting from foreign cash residue, profit be it or loss, including discrepancies of cash conversion of the subsidiary foreign companies with rates other than the one on the date of the balance sheet and other transactions.

**Cash Flows Reports Resulting from Operational Activities:**

Amount of the cash flow resulting from operational activities is one of the indicators to assess how much a business unit leads to adequate cash flow to loan reimbursement, maintaining the operational power of the business unit, and stocks interest payment and how much it facilitates novel investments without resorting to resources outside the unit. Providing precise information on the cash flow along with other data can come in handy for future predictions of the cash flow.

Operational activities are the main activities producing the operational income of the business unit. Such activities guarantee production and sales and provision of services and its related expenses and incomes are accounted for in the calculation of operational margin or loss in the profit and loss reports. Cash flows of the operational activities are generally inclusive of input and output cash flows related to these activities.

Business units have to report the cash flows of the operational activities using one of the approaches below:

a. Direct method through which gross cash received and paid in terms of general levels is shown.

b. Indirect method through which operational profit or loss with the modifications below will be transformed to net cash flow of the operational activities:

1. The influence of the contracts and events of non-cash nature
2. The influence of items which are considered in the calculation of operational profit and loss of the current period but the related cash flow has occurred in the previous or future periods

In order to report the net cash flow from operational activities in the direct method, operational cash receptions and payments (including cash income from the customers, cash payments to the sales clerks, and cash payments to the staff or on the behalf of the staff) are separately accounted for in the cash flow reports. In indirect reporting, having modified operational profits and losses related to the cases below, the net cash flow from the operational activities is calculated:

a. Items of non-cash nature such as depreciation expenses and end-of-the-service bonuses of the staff.
b. Item which are accounted for in the calculation of the current period operational profit and loss, but their related cash flows occurred in the previous periods or will occur in the next ones, or vice versa. These include increase or decrease of the materials and goods residue, operational input and output accounts in relation with the previous period residue and also increase or decrease of the remainder of the expense prepayments and purchase of the goods and prepayments of income and sales of goods in relation with the previous period residue.

**Cash management and skullduggery:**

Internal audit points to organizational methods, safeguarding the properties, and resting assure that every member of the staff is following the organizational procedure. Without a reliable internal audit the accounting information system of an organization can be subject to embezzlement.

Public belief states that 20% of the staff in the majority of the organization will not deceive the company under any circumstances, 60% will if they get a chance and the conditions ease the deed, and 20% will go astray to commit swindle or fraud.

Internal control is designed for those 60% because it is used to improve the procedure. Accountants should make use of professional judgments, and experiences to design and administrate internal audits. These controls have to be repeated in determined intervals so as to assure their efficiency.

Internal audit has 4 objectives:

1. Safeguarding the properties
2. Gaining confidence in the reliability of the financial records
3. Expanding the operational efficiency
4. Encouraging the observation of the general and specific instructions of the management

One important responsibility of the management is to establish and maintain the internal audit. Precision and completion of the accounting history is the managerial responsibility. The internal audit can be rewritten by the manager even when it is well-designed. This can prevent the superior manager from getting involved in the fake accounting reports. Thus this is the responsibility of the inspector or auditor to report the correction and precision of the information's to be fair and according to the rules.

It is worth mentioning that relatively small change is the most sensitive part in fraud. Therefore, a strong precise control must be exacted on it. Chief of staff should not be remained in that position for a long time.
because this will give them opportunity to detect the weaknesses as to impose great expenses to the organization.

Fraudulent payments include personal purchases on the company budget, getting a refund, false repayment, petty payments, doctoring, issuing the bill, etc.

Company rules need a person in charge to assure the internal control system. This is not true that most organizations need outsider auditors for the improvement of internal control. Management has to assure that the internal audit will guarantee cash.

In order to prevent disgrace, fraud, and business failures, a rule named sarbane-oxley was created. Based on this rule, public and private companies and organizations are made to follow, predicate, and evaluate the procedures of the internal audit. This rule was a compensation of the failures caused by lack of this control. Oxley made clarification of the financial, economic status mandatory and made the manager responsible for the function of the company and these all caused gravity and precision in financial reports and more trust on the part of the investor.

Communicative Skills and Public Relations for Cash Management:

Business unit has to avoid close relation with customers except for the time when there a need to increase pay to them. Phone contacts, SMS’s, polite emails, and appointments to appreciate them are usually done. Business unit is made through relations, although proper agreement with clients and the input source is demanding. Close relations with the bankers is related to the cash management. The ability of the treasurer to work with bankers and getting results is a measure of efficiency and proficiency. Protecting a company is so closely related to the input cash flow. A good financial manager understands and knows the habits of the customers and the paying policies.

A business unit can make a name for itself through a good creditor’s management. Equally, no agent becomes happy to hear that warning news is delivered to the contractors by their representative. Credit making and maintenance is useful for the business unit. Cash management will protect the stockholder’s interests. Creditors can be effective ministers of your brand.

Cash management requires the ability to listen to the information about the input and output and prioritize them accordingly.

Results and Suggestions:

An even superficial look at the economic status of the country, stock market, shares, the common economic culture speak for themselves that the best way to cash reports in Iran is the third way. This country does not have a broad, varied and fast market for investment. The number of the companies accepted in stock market and the thin variety of other types of investments reconfirm the premise above. Lack of a quick way to transform investments to cash and vice versa and lack of various opportunities for investment, on the one hand, and lack of adequate supply and demand, on the other, will not provide an ideal situation to refer to cash contracts as cash or even usual operations of the establishments. Preference of the public for storing gold or carpet over stock market shows lack of culture to pave the way for the items mentioned above. As a result, the difference between Iranian standard which cash flow resulting from trade and exchange of all investments in stocks, including short- and long-term is considered investment with international standard which cash investments are considered cash is not justified. With regard to the decrease of the harmony between cash flow records and profit and loss records, not adding to power of economic decisions of the users, lack of difference in auditing of the management, not determining the division of the stock interest items and receives wages, lack of effect of the investment structure on operational activities, non-analyzability of the end results, lack of correlation with the global procedures, cash flow reporting based on the three level framework which is approved by international standards seems to be the best method available.

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