

# Cash Management

## Learning Area Overview



### Welcome to this learning area overview for Cash Management, prepared by AAT.

In this overview we'll explain what Cash Management is all about, and how it fits into the bigger picture of the AAT Accounting Qualification.

We'll explore the main topics you can expect to cover, and how the knowledge and skills you'll pick up will be of practical use to you in the workplace.

Finally, we'll explain how this learning area relates to the others you've already studied, and those you'll study in the future.

### What you'll learn in Cash Management

In Cash Management you'll learn the theoretical principles of good cash management. You'll also develop your practical skills in preparing cash budgets, and learn about the options available to organisations for dealing with cash shortfalls and surplus funds.

You'll learn that effective cash management depends on understanding that cash is part of the working capital of a business, and that the time taken to convert inventory, receivables and payables into cash affects the liquidity position of an organisation.

Cash budgets show receipts and payments according to the various payment patterns that arise both from the nature of a particular receipt or payment, and also when amounts are received and paid for an item.

When preparing cash budgets, you need to consider known income and expenditure trends and build them into the estimates of future cash receipts and payments.

There are a number of statistical techniques for forecasting future cash receipts and payments. You'll learn about some of these techniques, and how to use them to estimate future cash receipts and payments that will be incorporated into cash budgets.

Hopefully you'll already appreciate that all cash budgets are based to a large extent on estimates that have been derived using certain assumptions. As a consequence, you should understand that changes in these assumptions will impact on the estimates that are used, and that the cash budget will need to be revised accordingly.

A cash budget is one approach an organisation can use to anticipate future cash shortages based on its expected level of activity. So it follows that cash budgets provide a periodic forecast of an organisation's net cash position, and will help management select and arrange suitable financing options to cover any cash shortages.

Organisations can raise finance from a range of sources, including banks (in the form of overdrafts and loans). In this learning area you'll look at how the banking sector is structured, and the different types of finance available to businesses.

You'll learn that alternative financing options have differing terms and conditions attached to them.

You'll also be introduced to the factors that need to be considered before recommending a suitable form of finance for a particular organisation.

As well as being able to select suitable finance for dealing with cash shortages, organisations need to have a strategy in place for utilising any cash surpluses they generate in the most appropriate manner, ensuring they receive maximum return for minimum risk.

Different organisations have different regulations and guidelines governing their investment strategy, and in Cash Management you'll learn what considerations you need to take into account when making recommendations about possible investments.



## How Cash Management will help you in the workplace

Cash budgets provide decision makers with a very effective tool for cash management, and are widely used by all sorts of organisations. As a result there's a good chance that at some point you'll become involved in either preparing or analysing cash budgets for an organisation you work for.



Those people most likely to encounter cash budgets on a regular basis in the workplace are probably members who work for manufacturing or service businesses. Cash flow is often said to be the lifeblood of a business, so managing working capital and regulating cash flows is particularly important for commercial organisations.

If you work for a firm of accountants there's also a reasonable chance you'll come across cash budgets in the workplace, especially if you're involved in either producing or reviewing business plans for your clients. Cash budgets usually form a key part of these documents.

Finally, if you work in the public sector it's important to monitor income and expenditure in order to ensure the organisation has sufficient funds to meet its various spending commitments. Managing the flow of receipts and payments is consequently an absolutely essential day to day requirement.

## How Cash Management relates to other learning areas

In addition to Cash Management, you'll need to take six other compulsory learning areas at level 3. These are:

- Accounts Preparation I
- Accounts Preparation II
- Costs and Revenues
- Indirect Tax
- Professional Ethics in Accounting and Finance
- Spreadsheet Software.

This is the first time Cash Management has been covered as a separate learning area in the AAT Accounting Qualification, but several other learning areas have some degree of overlap in terms of knowledge and skills.

Cash Management focuses on preparing cash budgets, and helps you understand how businesses raise additional finance and invest surplus cash. Cash budgets are a form of accounting statement and, although they're prepared in a different way to financial accounts, they rely on you having a good knowledge of bookkeeping.

In Cash Management you'll learn how figures from financial accounting statements can be altered to reverse the effects of accounting adjustments — such as accruals and prepayments — and in so doing find the cash transactions that need to be included in a cash budget. Content from all of the financial accounting learning areas you've met is directly relevant here.

The closest learning area to Cash Management at level 3 is Costs and Revenues. The reason for this is that both learning areas technically come under the general heading of management accounting, as opposed to financial accounting. Costs and Revenues concentrates on how organisations use cost and revenue information for decision making purposes.

Next, there's Spreadsheet Software, which tests your ability to use software applications that record data in particular formats. Cash budgets are ideally suited to being presented in spreadsheet form.

At level 4 there are two further management accounting learning areas: Budgeting and Financial Performance.

Budgeting covers similar ground to Cash Management because it deals with how and why organisations prepare budgets and forecasts generally. In this learning area you won't just be looking at how you put together cash budgets, but you'll also see how budgets are prepared for things like income, material costs, labour, overheads and capital expenditure.

Financial Performance concentrates on how budgeted information gives organisations the opportunity to set targets which can subsequently be used to compare against actual performance data.