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PO 16: MANAGE CASH USING ACTIVE CASH MANAGEMENT AND TREASURY SYSTEMS

Cash management is an important aspect of sound accounting in organisations large and small. You will need to proactively manage the cash that flows in on a daily basis, using active cash management and treasury systems and seek ways to optimise returns and minimise charges, within acceptable levels of risk.

Remember, that especially where business or projects are managed by non-finance managers, there may not be as much attention paid to financial issues as would be ideal – your employer may rely on your financial stewardship to ensure that those managers are made aware of the impact of their actions or decisions on cash flow.

To perform effectively, you'll need a good understanding of how to apply your financial know-how to optimise returns for cash held on deposit – as well as minimising risk through appropriate spreading of cash deposits. You'll have to manage cash on a centralised basis to maximise returns and minimise the charges your company incurs, and ensure that financial instruments held to meet liabilities mature on a timely basis. You should seek to minimise charges for each option you pursue.

Examples of relevant activities include:

- setting up an overseas deposit to meet a future overseas liability

CASH MANAGEMENT IS AN IMPORTANT ASPECT OF SOUND ACCOUNTING IN ORGANISATIONS LARGE AND SMALL. YOU'LL NEED TO ENSURE THAT CASH ISN'T LYING AROUND, EARNING LITTLE OR NO MONEY FOR YOUR EMPLOYER.

- pooling cash from various sources (which could be regional branches, different bank accounts or non-core revenue streams, such as rentals received on property assets) to place on deposit
 - setting up and using sweep accounts to automatically invest liquid funds, so that returns and cash flows remain sufficiently steady, without compromising on risk, thereby maximising cash available at any given time
 - negotiating short-term sources of finance, such as overdrafts, trade credit, leasing or loans
 - exploring the availability and cost of long-term sources of finance – such as bank loans, share capital or debentures, or even specific asset sales or venture capital.
- Also think about how regularly you review your cash management tools – and what might happen should you fail to observe where a usually reliable source of return on investment starts to yield far less.
 - Explain your role in managing cash effectively
 - Detail your responsibilities, from receiving funds through to releasing cash – where do you typically place it? How do you evaluate the return? What steps might you have had to take in exceptional circumstances, eg when dealing with larger than usual sums, or if your usual avenues are unavailable?
 - How have you improved the cash management system that you work with?
 - Consider recommendations of yours that were accepted and initiated by your employer – how has the process improved as a result, eg in terms of efficiency, cost or manpower? What impact have your recommendations had on your company's cash situation – for instance, where you have readier access to funds without losing out on return?

By performing effectively in this area, you'll deepen your understanding of financial and risk management – knowledge that's essential for contributing to the ongoing viability of a business.

The next step is to answer the challenge questions for this objective in the trainee development matrix (TDM):

- What would be the business impact of you not managing cash effectively?
 - Consider the opportunity costs that would be borne if cash was simply left in accounts that didn't yield a high return.

This performance objective is linked to Paper F9, *Financial Management*, and Paper P4, *Advanced Financial Management*