

Subject : Working Capital Management
class : VI SEM BBA

Prepared by

Mamatha S
Assistant professor
Dept. of Commerce & Administration
Jss college for women,kollegal

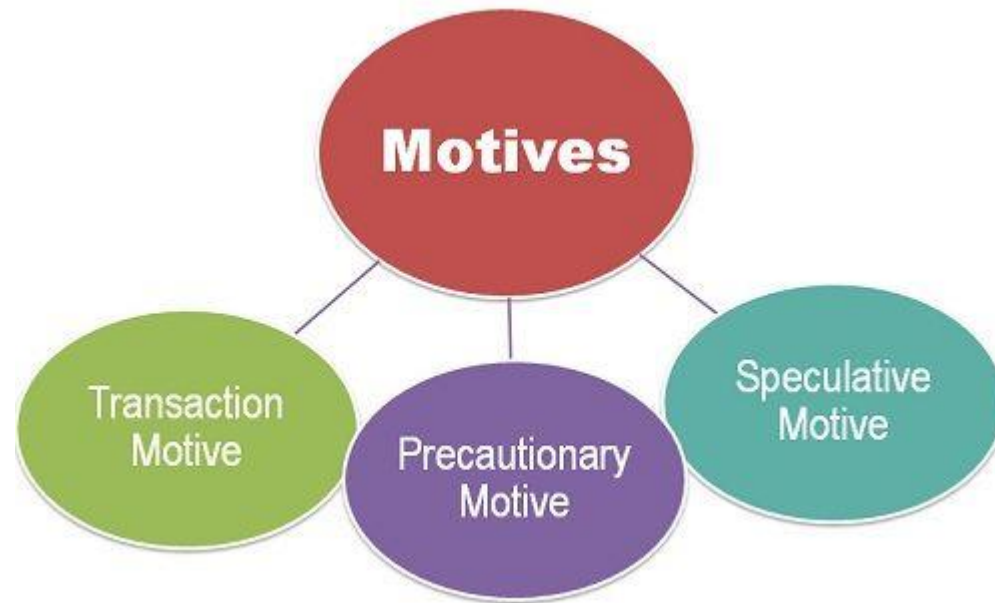
Motives for Holding Cash

Definition:

The Motives for Holding Cash is simple, the cash inflows and outflows are not well synchronized, i.e. sometimes the cash inflows are more than the cash outflows while at other times the cash outflows could be more. Hence, the cash is held by the firms to meet the certain as well as uncertain situations.

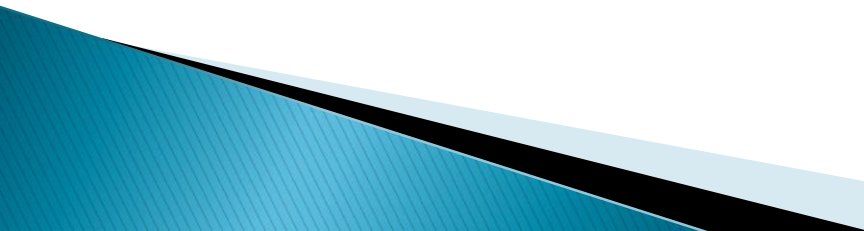
Motives for Holding Cash

Majorly there are three motives for which the firm holds cash.



Transaction Motive:

The transaction motive refers to the cash required by a firm to meet the day to day needs of its business operations. In an ordinary course of business, the firm requires cash to make the payments in the form of salaries, wages, interests, dividends, goods purchased, etc. Likewise, it also receives cash from its sales, debtors, investments. Often the firm's cash inflows and outflows do not match, and hence, the cash is held up to meet its routine commitments.



Precautionary Motive:

The precautionary motive refers to the tendency of a firm to hold cash, to meet the contingencies or unforeseen circumstances arising in the course of business. Since the future is uncertain, a firm may have to face contingencies such as an increase in the price of raw materials, labor strike, lockouts, change in the demand, etc. Thus, in order to meet with these uncertainties, the cash is held by the firms to have an uninterrupted business operations.

Speculative Motive:

The firms hold cash for the speculative purposes to avail the benefit of bargain purchases that may arise in the future. For example, if the firm feels the prices of raw material are likely to fall in the future, it will hold cash and wait till the prices actually fall. Thus, a firm holds cash to exploit the possible opportunities that are out of the normal course of business.

These opportunities could be in the form of the low-interest rate charged on the borrowed funds, expected fall in the raw material prices or favorable change in the government policies.

Thus, the cash is the most significant and liquid asset that the firm holds. It is significant as it is used to pay off the firm's obligations and helps in the expansion of business operations.