

From the two illustrations above it is noted that Tenaga Nasional gains from payment float and loses as a result of collection float. The difference between the payment float and the collection float is called the net float. Thus, we have,

$$\begin{aligned} \text{Net Float} &= \text{Payment Float} - \text{Collection Float} \\ \text{RM100,000} &= \text{RM 200,000} - \text{RM 300,000} \end{aligned}$$

2.1 Why Hold Cash

According to the economist John Maynard Keynes, the firm's demand for cash falls into three categories, namely: (1) the transaction motive, (2) the precautionary motive and (3) the speculative motive.

2.1.1 Transaction Motive

The balances held under this category allow the firm to dispense with cash needs that arise from the ordinary course of doing business. In principle, the amount of transaction cash held is very much dependent on the type of industry the firm is in. Utilities like Tenaga Nasional are known to be able to accurately forecast cash receipts as demand for their services are both stable and constant. This enables the firm to stagger its bills throughout a period such that they coincide with expenditure. Due to this, cash holding for utilities are very much lower than say, a retail business.

2.1.2 Precautionary Motive

Precautionary balances act as buffer to a stock of liquid asset. And this motive relates to need for maintaining balances for the satisfaction of possible but indefinite needs. As seen earlier, the predictability of the cash flows would affect the firm's cash holding through synchronization of receipts and disbursements. Cash flow predictability has an influence on the firm's demand for cash in the precautionary motive. For example, airlines are more affected by this than utilities. Rising fuel costs, strikes, etc. makes the task of forecasting cash inflows for airlines more difficult. Hence the minimum cash balance is higher.

In reality, the precautionary motive is met by holding a portfolio of liquid assets. In some corporations, the flow into and out of marketable securities occur on a daily basis. This occurs because investing in near cash assets does result in some returns as opposed to **zero** return on holding cash.

2.1.3 Speculative Motive

This motive is purely to take advantage of potential profit making situations. However, compared to the two earlier motives, the speculative motive is the least of a firm's preference for liquidity.

2.2 Liquid Assets Holding

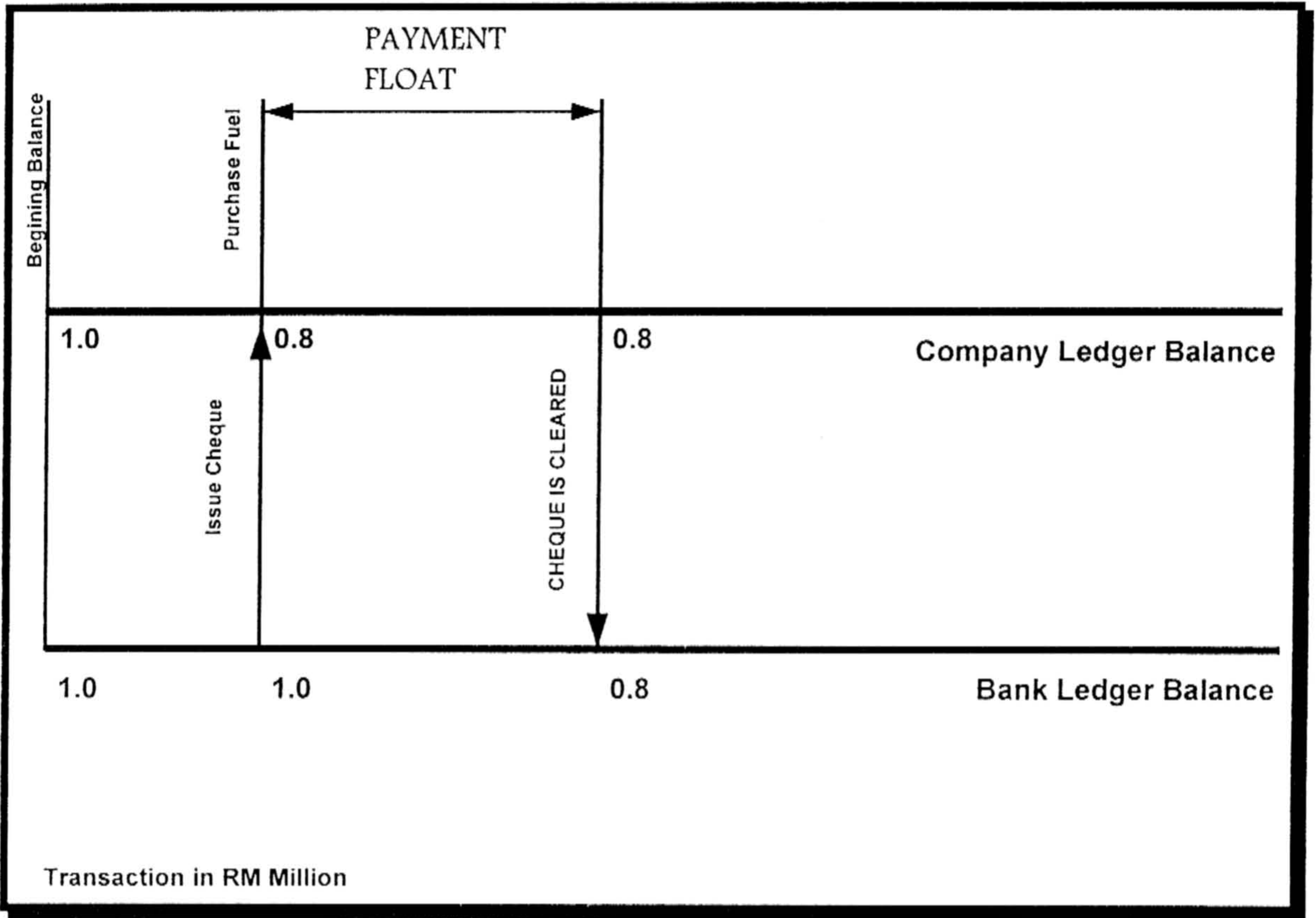
Tenaga Nasional operate in an environment where cash flows are highly predictable relative to other industries. From its Financial Year 1995 Annual Report, Tenaga Nasional had an 11.26% of current assets in proportion to fixed assets. This is down by 2.89% from 14.15% of 1994 figures (See Appendix 4). This fall is due to the adjustment made to its liquid asset positions in order to meet the continual changes in operating needs and to respond to real investment requirements. Of the RM 2,600 million in current assets, RM 822.4 million are in stocks and inventories (fuel and spares), RM 1,392.5 million in Debts (Debtors) and RM 336.4 million in bank and cash balance.

2.3 The Concept of Float

Suppose, Tenaga Nasional has RM 1 million in its checking account in Maybank. For the purchase of fuel, Tenaga Nasional pays its supplier by writing a cheque for RM 200,000. Once the cheque is issued, Tenaga Nasional would have a balance of RM 800,000 in its ledger account.

However, Maybank would debit that amount from Tenaga Nasional's account only after the cheque is received for clearance. Thus, the sum of money for the amount of cheque drawn and not cashed is known as disbursement or payment float. In the mean time, Tenaga Nasional obtains the benefit of an extra RM 200,000 in the bank (Figure 2) for the period of the float.

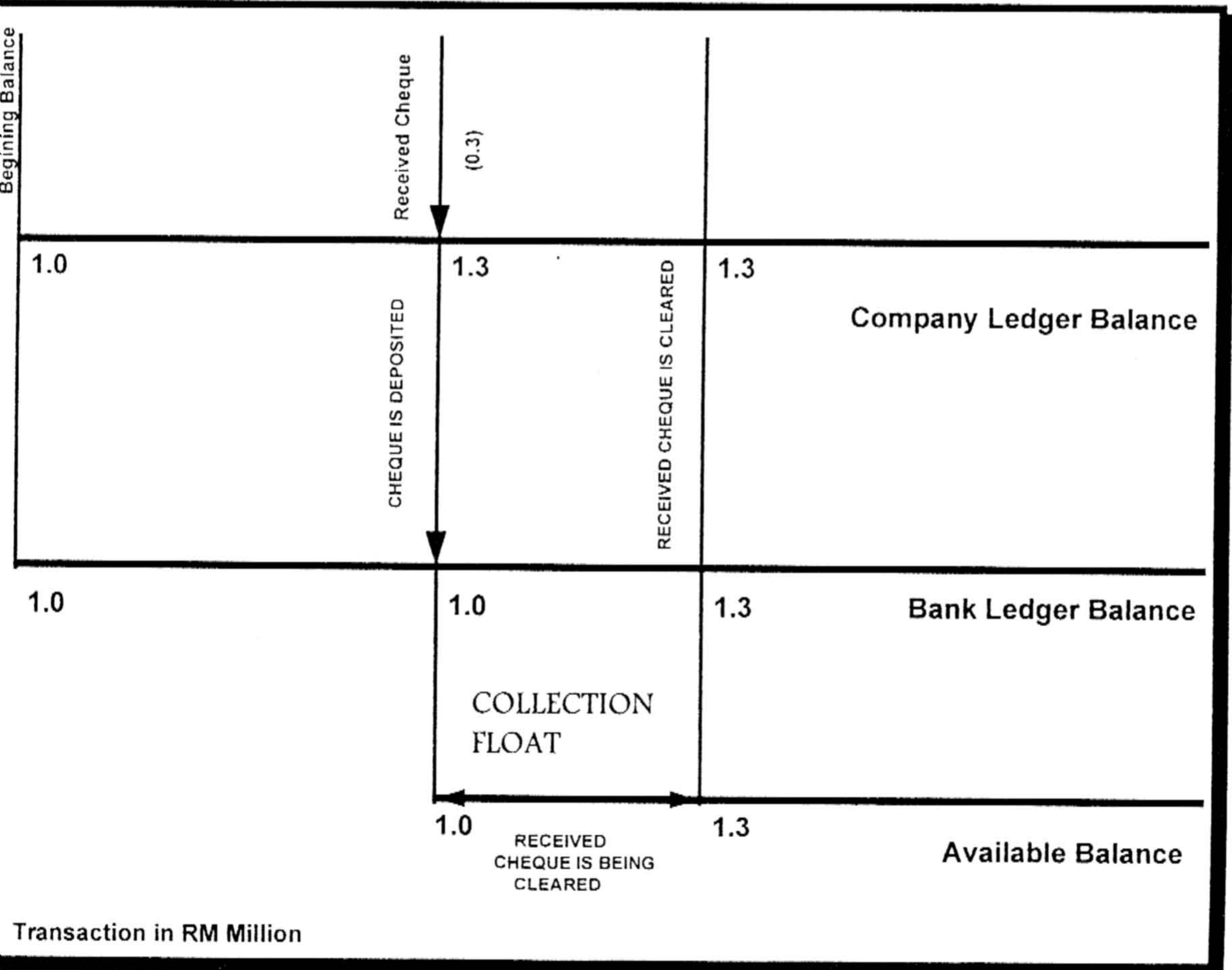
Figure 2 Payment Float



Consider that Tenaga Nasional now receives a cheque for RM 300,000 from a customer. The cheque is first processed and then deposited into its checking account. At the point in time, the ledger balance of Tenaga Nasional increases by RM 300,000 to RM 1.3 million.

Although Tenaga Nasional had presented the cheque to Maybank for clearance, the money cannot be credited into its account immediately as the cheque has to be sent to the customer's bank for processing and payment. As the process takes a couple of days, the money deposited would not be available and as such Tenaga Nasional's available balance in the bank would still show RM 1,000,000. The difference between the amount shown in Tenaga Nasional's books and that of its bank account equals RM 300,000 and that amount is called Collection Float (See Figure 3)

Figure 3 Collection Float



2.0 BASIC CONCEPTS -- CASH MANAGEMENT

The figure below shows a typical cash flow process. Basically, sources of cash flows come from both external sources which by nature are irregular and unpredictable and internal sources i.e. from internal operations. Funds obtained are used to purchase equipment which are in turn used to produce finished goods. Proceeds from the sale of these goods are then collected and the cash balance restored for the cycle to repeat.

Figure 1 Typical Cash Balance of a Company

