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Cash Management Formulas

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List of 9 Cash Management Formulas

Cash Management ⤵

1) Baumol's Model ⤴

Open Calculator ⤴

fx $$C = \sqrt{\frac{2 \cdot b \cdot t}{R}}$$

ex $$141.4214 = \sqrt{\frac{2 \cdot 20 \cdot 30}{0.06}}$$

2) Cash Budget ⤴

Open Calculator ⤴

fx $$CB = TR - TP$$

ex $$125000 = 200000 - 75000$$

3) Cash Burn Rate ⤴

Open Calculator ⤴

fx $$NB = TMC - TMCE$$

ex $$70000 = 550000 - 480000$$

4) Cash Conversion Cycle ⤴

Open Calculator ⤴

fx $$CCC = DIO + DSO - DPO$$

ex $$65 = 70 + 10 - 15$$

5) Cash Coverage ⤴

Open Calculator ⤴

$$fx \quad \text{Cash}_{\text{cov}} = \frac{\text{EBIT}}{\text{Int}}$$

$$ex \quad 1050 = \frac{105000}{100}$$

6) Cash Surrender Value ⤴

Open Calculator ⤴

$$fx \quad \text{CSV} = \text{mod}\,(\text{EAV}, \text{SC})$$

$$ex \quad 130000 = \text{mod}\,(630000, 500000)$$

7) Implied Cash Runway ⤴

Open Calculator ⤴

$$fx \quad \text{ICRun} = \frac{\text{CBal}}{\text{NB}}$$

$$ex \quad 1.142857 = \frac{80000}{70000}$$

8) Merton Model ⤴

Open Calculator ⤴

$$fx \quad \text{DD} = \ln\left(\frac{V}{D_M}\right) + \frac{\left(Rf + \frac{(\sigma_{\text{cav}})^2}{2}\right) \cdot T}{\sigma_{\text{cav}} \cdot \sqrt{T}}$$

$$ex \quad 126.1931 = \ln\left(\frac{20000}{10000}\right) + \frac{\left(5 + \frac{(0.2)^2}{2}\right) \cdot 25}{0.2 \cdot \sqrt{25}}$$

9) Miller Orr Model 🔗

fx $Z = 3 \cdot \left(\dfrac{3 \cdot b \cdot \sigma}{4 \cdot \frac{R}{360}} \right)^{\frac{1}{3}}$

Open Calculator 🔗

ex $744.7635 = 3 \cdot \left(\dfrac{3 \cdot 20 \cdot 170}{4 \cdot \frac{0.06}{360}} \right)^{\frac{1}{3}}$

Variables Used

- **b** Cost of Conversion
- **C** Cost of Providing a Service
- **Cash$_{cov}$** Cash Coverage
- **CB** Cash Budget
- **CBal** Cash Balance
- **CCC** Cash Conversion Cycle
- **CSV** Cash Surrender Value
- **D$_M$** Market Value of Company Debt
- **DD** Distance to the Default
- **DIO** Days Inventory Outstanding
- **DPO** Days Payables Outstanding
- **DSO** Days Sales Outstanding
- **EAV** Enhanced Accumulated Value
- **EBIT** Earnings before Interest and Taxes
- **ICRun** Implied Cash Runway
- **Int** Interest Expense
- **NB** Net Burn
- **R** Interest Rate
- **Rf** Risk Free Interest Rate
- **SC** Surrender Charges
- **t** Total Requirement of Cash
- **T** Time to Maturity
- **TMC** Total Monthly Cash Sales
- **TMCE** Total Monthly Cash Expenses

- **TP** Total Payments
- **TR** Total Receipts
- **V** Market Value of Company Assets
- **Z** Miller Orr Model
- **σ** Variance
- **σ$_{cav}$** Volatility of Company Asset Value

Constants, Functions, Measurements used

- Function: **ln**, ln(Number)
  The natural logarithm, also known as the logarithm to the base e, is the inverse function of the natural exponential function.

- Function: **mod**, mod(dividend, divisor)
  The modulo function, also known as "mod", represents the remainder when two positive numbers are divided.

- Function: **sqrt**, sqrt(Number)
  A square root function is a function that takes a non-negative number as an input and returns the square root of the given input number.

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- **Capital Budgeting Formulas** ↗
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