

Important Cash Management Formulas PDF



Formulas Examples with Units

List of 9 Important Cash Management Formulas

1) Baumol's Model Formula

Formula

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

Example

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

Evaluate Formula 

2) Cash Budget Formula

Formula

$$CB = TR - TP$$

Example

$$125000 = 200000 - 75000$$

Evaluate Formula 

3) Cash Burn Rate Formula

Formula

$$NB = TMC - TMCE$$

Example

$$70000 = 550000 - 480000$$

Evaluate Formula 

4) Cash Conversion Cycle Formula

Formula

$$CCC = DIO + DSO - DPO$$

Example

$$65 = 70 + 10 - 15$$

Evaluate Formula 

5) Cash Coverage Formula

Formula

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

Example

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

Evaluate Formula 

6) Cash Surrender Value Formula

Formula

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

Example

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

Evaluate Formula 

7) Implied Cash Runway Formula

Formula

$$ICRun = \frac{CBal}{NB}$$

Example

$$1.1429 = \frac{80000}{70000}$$

Evaluate Formula 



8) Merton Model Formula

Evaluate Formula 

Formula

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

Example

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

9) Miller Orr Model Formula

Evaluate Formula 

Formula

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

Example

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



Variables used in list of Cash Management Formulas above

- **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 in list of Cash Management Formulas above

- **Functions: ln**, ln(Number)
The natural logarithm, also known as the logarithm to the base e, is the inverse function of the natural exponential function.
- **Functions: mod**, mod(dividend, divisor)
The modulo function, also known as "mod", represents the remainder when two positive numbers are divided.
- **Functions: 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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