Sharing Skills

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Module 4

Financial management

Unit 4.1. *What is financial management and what does it include?*

a Training Module for Sharing Economy Practitioners

of the project Sharing Skills

Increasing the labour market relevance of VET provision and reducing skills mismatches and shortages in the new booming "Sharing Economy" sector

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Overview

How many slides? 23 slides in total

How long to read and listen? 25 minutes (not including exploring the links provided within slides)

What is the benefit? See aim and expected learning in following slides

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Unit Aim

The aim is to analyze the basic framework of financial management and its parameters and characteristics

Expected Learning Outcomes

At the end of this module <u>you will be able to:</u>

- Consolidate the importance of Financial Management
- Clarify the scope of Financial Management
- Understand he functions of Financial Management

Definition

Financial management:

- Refers to the efficient and effective management of funds in such a manner as to accomplish the objectives of the organization.
- It is the specialized function directly associated with the top management.
- Applies general management principles to financial resources of the enterprise.

What Financial Management involves 1/2

- Precisely defining a company's objectives
- Identifying and quantifying its resources
- Devising a plan for utilizing finances and other resources to achieve its goals
- Establishing procedures for collecting and analyzing data

What Financial Management involves 2/2

- Making financial decisions
- Tracking and analyzing variance between budgeted and actual results to identify problems and take appropriate corrective actions

Functions of Financial Management 1/5

- **Estimation of capital requirements:** A finance manager has to make estimation with regards to capital requirements of the company.

- **Determination of capital composition:** Once the estimation have been made, the capital structure have to be decided. This involves short- term and long- term debt equity analysis

Functions of Financial Management 2/5

- **Choice of sources of funds:** For additional funds to be procured, a company has many choices like-
  - Issue of shares and debentures
  - Loans to be taken from banks and financial institutions
  - Public deposits to be drawn like in form of bonds.

Choice of factor will depend on relative merits and demerits of each source and period of financing

Functions of Financial Management 3/5

- **Investment of funds:** The finance manager has to decide to allocate funds into profitable ventures so that there is safety on investment and regular returns is possible.

Functions of Financial Management 4/5

- **Disposal of surplus:** The net profits decision have to be made by the finance manager. This can be done in two ways:
  - Dividend declaration - It includes identifying the rate of dividends and other benefits like bonus.
  - Retained profits - The volume has to be decided which will depend upon expansional, innovational, diversification plans of the company.

Functions of Financial Management 5/5

- **Management of cash:** Finance manager has to make decisions with regards to cash management. Cash is required for many purposes like payment of wages and salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, maintainance of enough stock, purchase of raw materials, etc.
- **Financial controls:** The finance manager has not only to plan, procure and utilize the funds but he also has to exercise control over finances. This can be done through many techniques like ratio analysis, financial forecasting, cost and profit control, etc.

Objectives of Financial Management 1/2

- To ensure regular and adequate supply of funds to the concern.
- To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
- To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost

Objectives of Financial Management 2/2

- To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
- To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.

The importance of Financial Management 1/4

A good financial management system enables you to accomplish important big picture and daily financial objectives.

The importance of Financial Management 2/4

A good financial management system helps you become a better macromanager by enabling you to:

- Manage proactively rather than reactively.
- Borrow money more easily; not only can you plan ahead for financing needs, but sharing your budget with your banker will help in the loan approval process.
- Provide financial planning information for investors.
- Make your operation more profitable and efficient.
- Access a great decision-making tool for key financial considerations

The importance of Financial Management 3/4

Financial planning and control help you become a better micromanager by enabling you to:

- Avoid investing too much money in fixed assets.
- Maintain short-term working capital needs to support accounts receivable and inventory more efficiently
- Improve gross profit margin by pricing your services more effectively or by reducing supplier prices

The importance of Financial Management 4/4

- Operate your business more efficiently by keeping selling and general and administrative expenses down more effectively
- Plan ahead for employee benefits
- Perform sensitivity analysis with the different financial variables involved

The importance of making decisions 1/4

The importance of making decisions in the administrative and financial process in being one of the most important and the most difficult situations faced by individuals, groups and organizations at both the framework, therefore the process of decision-making was considered the essence of the administrative process operation

The importance of making decisions 2/4

Among different financial decisions, the one relating to investment in fixed assets or capital budgeting is of special significance. These decisions are relatively more important because of the following reasons:

- These decisions are concerned with long-term assets. These assets are helpful in production. Profit is earned by selling the goods so produced.

The importance of making decisions 3/4

- Decisions regarding fixed assets are included in the preview of capital budgeting. Large amount of capital is invested in these assets.

- Capital budgeting decisions are full of risk. There are two reasons for it. First, these decisions refer to a long period, and as such expected profits for several years are to be anticipated. These estimates may turn out to be wrong. Second, because of heavy investment involved, it is very difficult to change the decision once taken

The importance of making decisions 4/4

- Nature of these decisions is such as cannot be changed so quickly. For instance, if soon after setting up a cotton mill, it is thought of changing it, then the old machinery and other fixed assets will have to be sold at throwaway price. In doing so, heavy loss will have to be incurred. Changing of these decisions, therefore, is very difficult.

Any questions?

End of Unit 4

Unit 4.1. What is financial management and what does it include

Next:

Unit 4.2.: Identifying basic Concepts