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Module 4

Financial management

Unit 4.2. *Identifying basic Concepts*

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?	17 slides in total
How long to read and listen?	20 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 quote the main principles of financial management and to identify its basic concepts

Expected Learning Outcomes

- To learn about budgeting, financing
- Concepts and principles of financial management

Basic concepts of Financial Management

- **Budgeting**

  One of the most important concepts of financial management is budgeting. Spending money without a plan or without regard to your sales can lead to overspending, missed bill payments and decreased profits.

  Create a master budget each year for your business that includes income and expense projections, a cash flow statement, a balance sheet and a profit-and-loss statement. Perform a budget variance analysis each month or quarter to determine if your budget projections were accurate or if they need to be adjusted

Basic concepts of Financial Management

- **Reporting**

To make the most effective decisions regarding marketing, distribution strategies, pricing, hiring and other aspects of your business, you'll need accurate information regarding how each decision you make might affect your bottom line.

Accurate and regular financial reporting helps you know exactly where you stand financially, how different areas of your company and different initiatives are performing and what your resources are.

Basic concepts of Financial Management

- **Cash Flow Management**

  A common reason small businesses struggle or fail is poor cash flow management. Accurate and timely cash flow statements help you avoid production shutdowns, loss of customers and damage to your credit.

Basic concepts of Financial Management

- **Tax Planning**

  Effective tax planning can help you reduce payroll taxes, lower your income tax liability, avoid paying sales taxes late and avoid surprises that arise when you are hit with tax bills larger than you expected.

Basic concepts of Financial Management

- **Debt Service**

  Even if you have no problem paying your credit card bills or loan amounts, high debt can lower your credit score, potentially decrease your ability to get more credit when you need it, and raise the interest rates you'll have to pay on future borrowing. Effective financial planning includes monitoring your debt and managing it on a regular basis.

Principles of Financial Management

- **Principle 1:** A budget must be established to provide a tool to:

  -project resources necessary to achieve a unit's goals and objectives

  -measure current financial performance

  -discover significant transaction errors

  -detect substantial changes in circumstances or business conditions

Principles of Financial Management

- **Principle 2**: A budget must be realistic, reasonable and attainable
- **Principle 3:** A budget must be based on a thorough analysis that includes:

-a clear identification of the budget's purpose to the unit's mission, goals and objectives,

-a comprehensive assessment of the unit's financial needs in order to fulfill its goals, and

-a plan to increase resources or modify goals and objectives, if current resources fall short of meeting a unit's needs

Principles of Financial Management

- **Principle 4**: Actual financial results must be compared to the budget on a regular basis to:

-detect changes in circumstances or the business environment,

-discover transaction errors,

-measure financial performance,

-ensure unnecessary costs are being avoided,

-ensure that expenditures are reasonable and necessary to accomplish the unit's goals, and,

-transactions are adequately supported

Principles of Financial Management

- **Principle 5:** When actual financial results vary significantly from the budget, a manager must:

  -determine the cause

  -evaluate the activity

  -take corrective action

Principles of Financial Management

- **Principle 6**: Units must *operate within* their budget. Where expenditures exceed budget, justification for such excess must be provided. Additionally units must develop a formal plan to eliminate deficits generated.

Principles of Financial Management

- **Principle 7:** All expenditures must comply with all relevant policies, rules and regulations.

- **Principle 8:** Each unit must evaluate the financial consequences before a new activity is started or a current activity is a changed or eliminated.

Principles of Financial Management

- **Principle 9:** Each unit must ensure that the anticipated benefits are greater than the costs for any planned or ongoing activities.

- **Principle 10:** Each unit must provide adequate safeguards to protect against the loss or unauthorized use of University assets.

Any questions?

End of Unit 4

Unit 4.2. Identifying basic Concepts

Next:

Unit 4.3.: What is Cash flow management and performance