The Role of Financial Management

Presentation · June 2016

1 author:

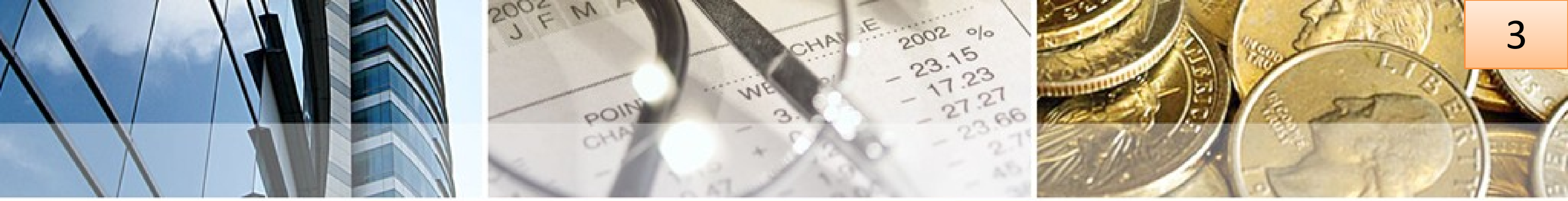
Olena Hrechyshkina
POLESSKY STATE UNIVERSITY

THE ROLE OF FINANCIAL MANAGEMENT

Olena Hrechyshkina

“Money often costs too much.”

- RALPH WALDO EMERSON



STRUCTURE

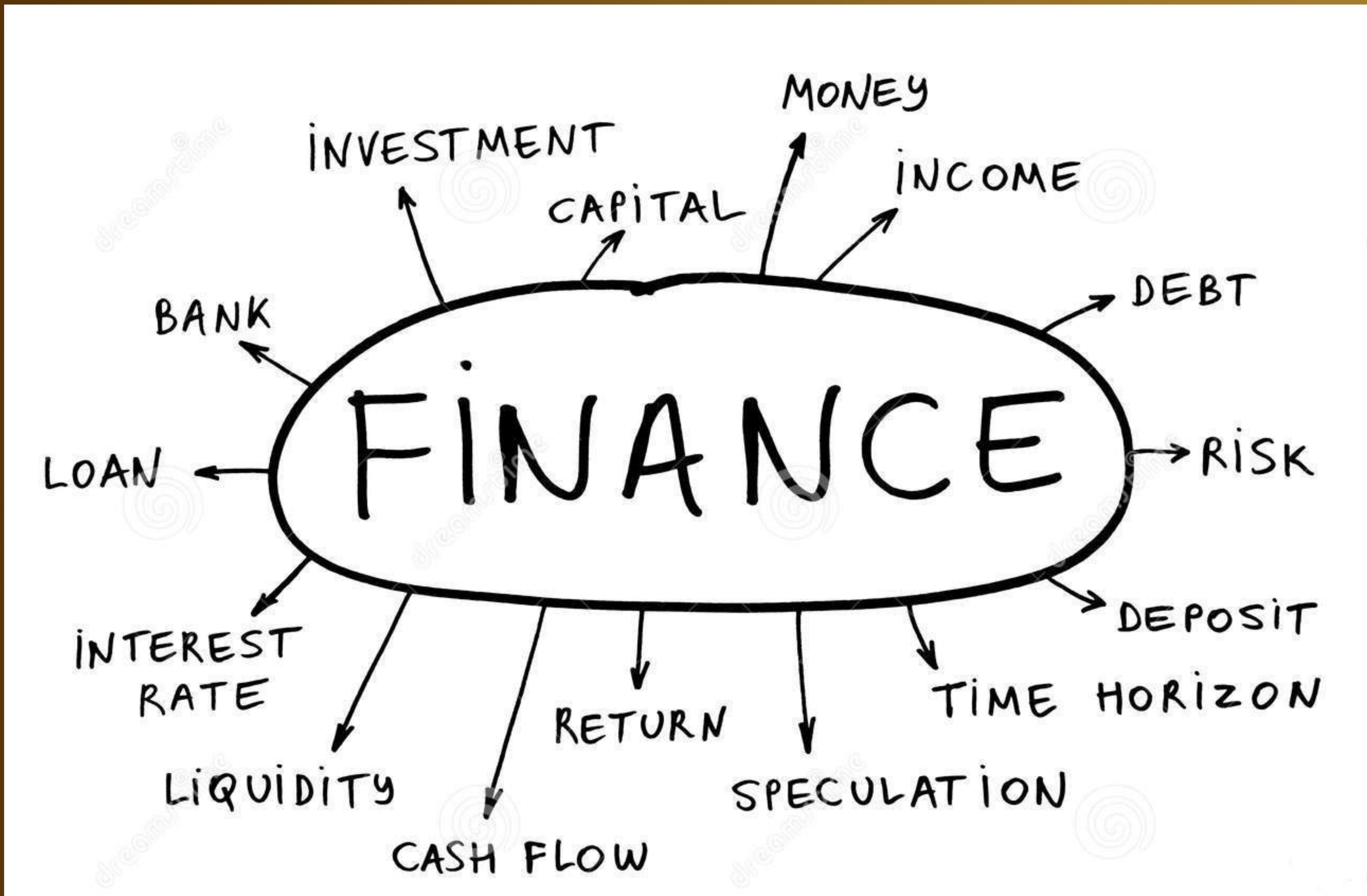
- Definition of Finance
- Definition of Financial Management
- Scope of Financial Management
- Objectives Of Financial Management
- Role of Financial Management
- Functions of Financial Management
- Financial Management System
- Principles of Financial Management
- Financial Management Processes


BUSINESS
FINANCE
MONEY
ASSET
PROFIT


PROFIT
15%
25%
55%
75%
90%

"Finance is the art and science of managing money"

"Finance is referred as the provision of money at the time when it is needed."


MONEY
INVESTMENT
INCOME
CAPITAL
DEBT
BANK
FINANCE
LOAN
RISK
INTEREST RATE
DEPOSIT
TIME HORIZON
RETURN
LIQUIDITY
SPECULATION
CASH FLOW

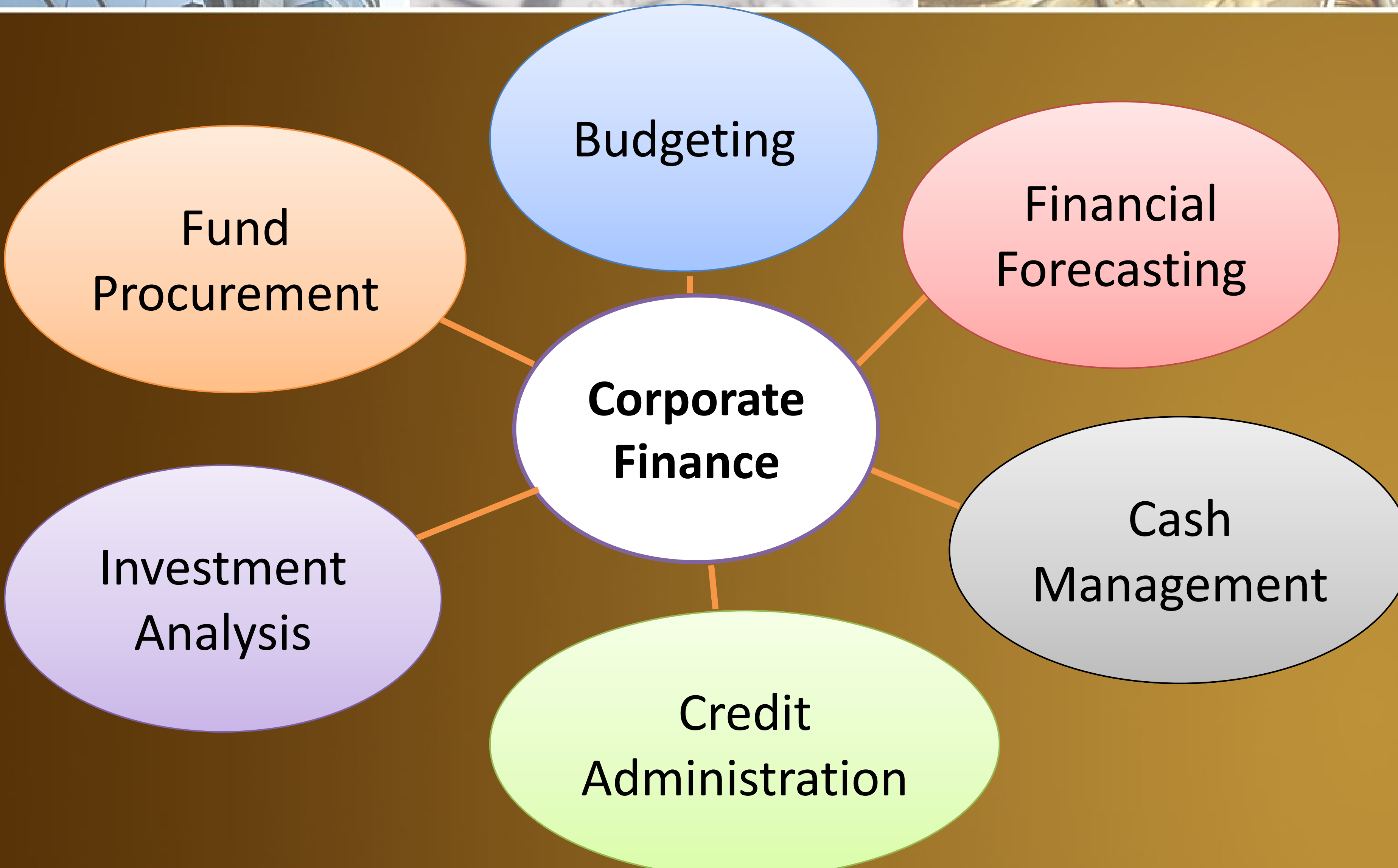
F I N A N C E

“Finance is the management of money”

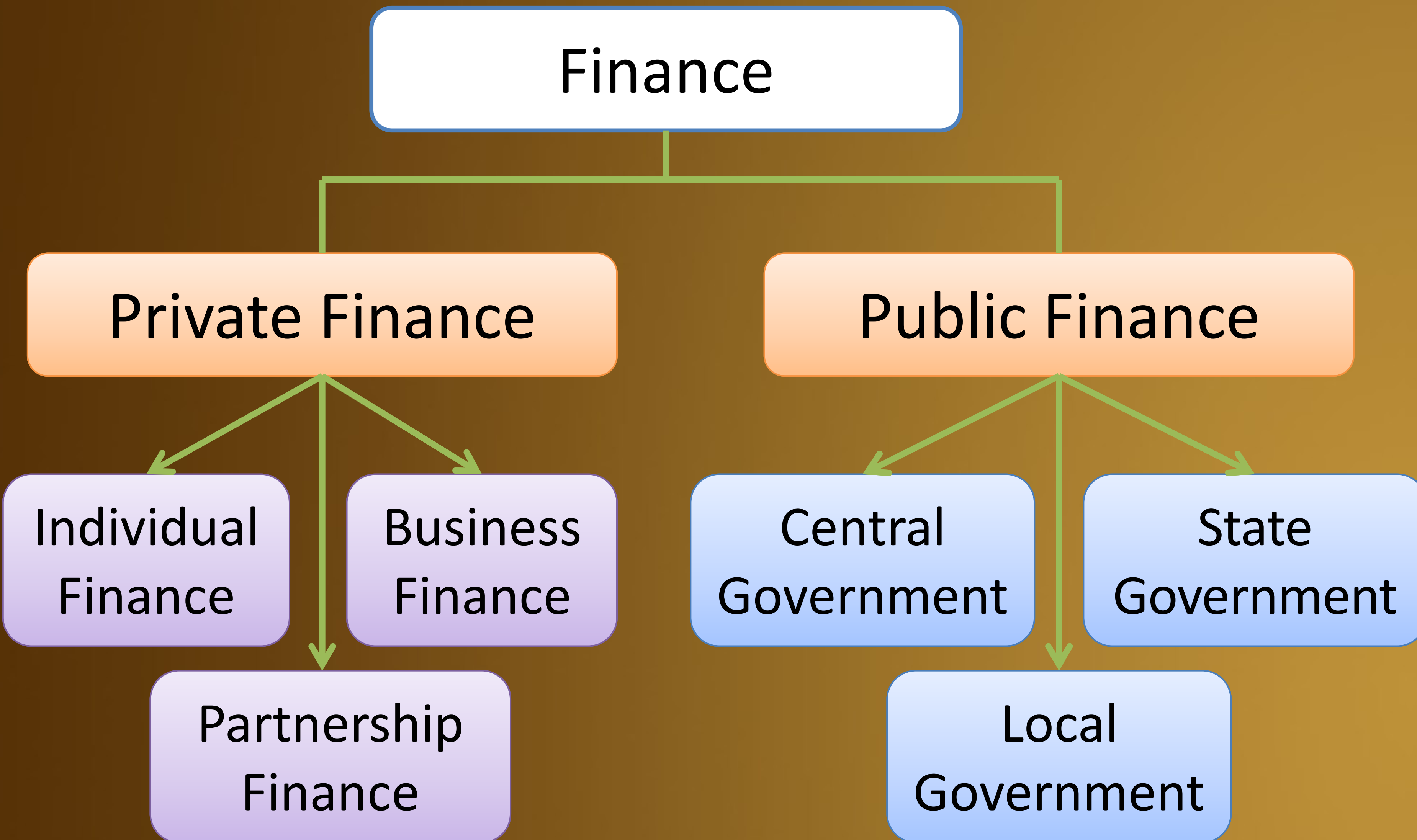
“Finance is the science on study of the management of funds”

BUSINESS FINANCE

- is that business activity which concerns with the acquisition and conversation of capital funds in meeting financial needs and overall objectives of a business enterprise.
- can broadly be defined as the activity concerned with **planning, raising, controlling, administering** of the funds used in the business.
- deals primarily with raising, administering and disbursing funds by privately owned business units.

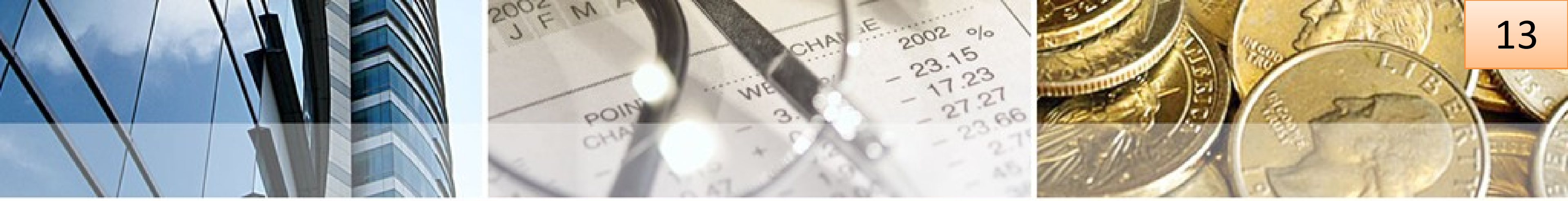

Budgeting
Fund Procurement
Financial Forecasting
Corporate Finance
Investment Analysis
Cash Management
Credit Administration

TYPES OF FINANCE



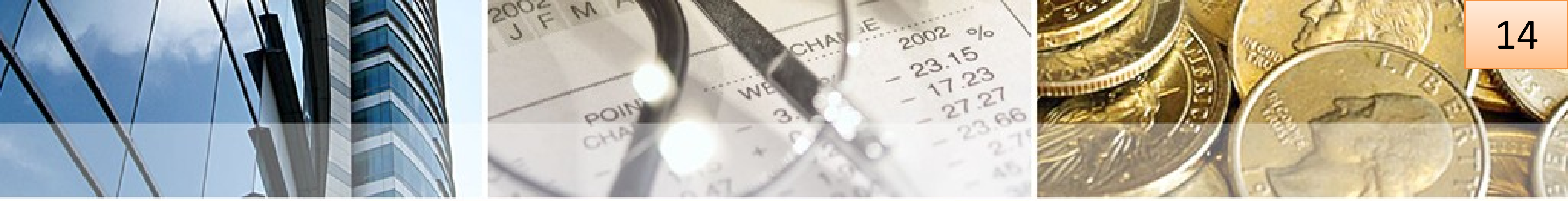
DEFINITION OF FINANCIAL MANAGEMENT

- It is concerned with the efficient use of an important economic resource namely, capital funds.
- Financial management deals with procurement of funds and their effective utilization in the business.
- Financial management is an application of general managerial principles to the area of financial decision-making.
- Financial management is area of financial decision making, harmonizing individual motives and enterprise goal.
- Financial management "is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations.



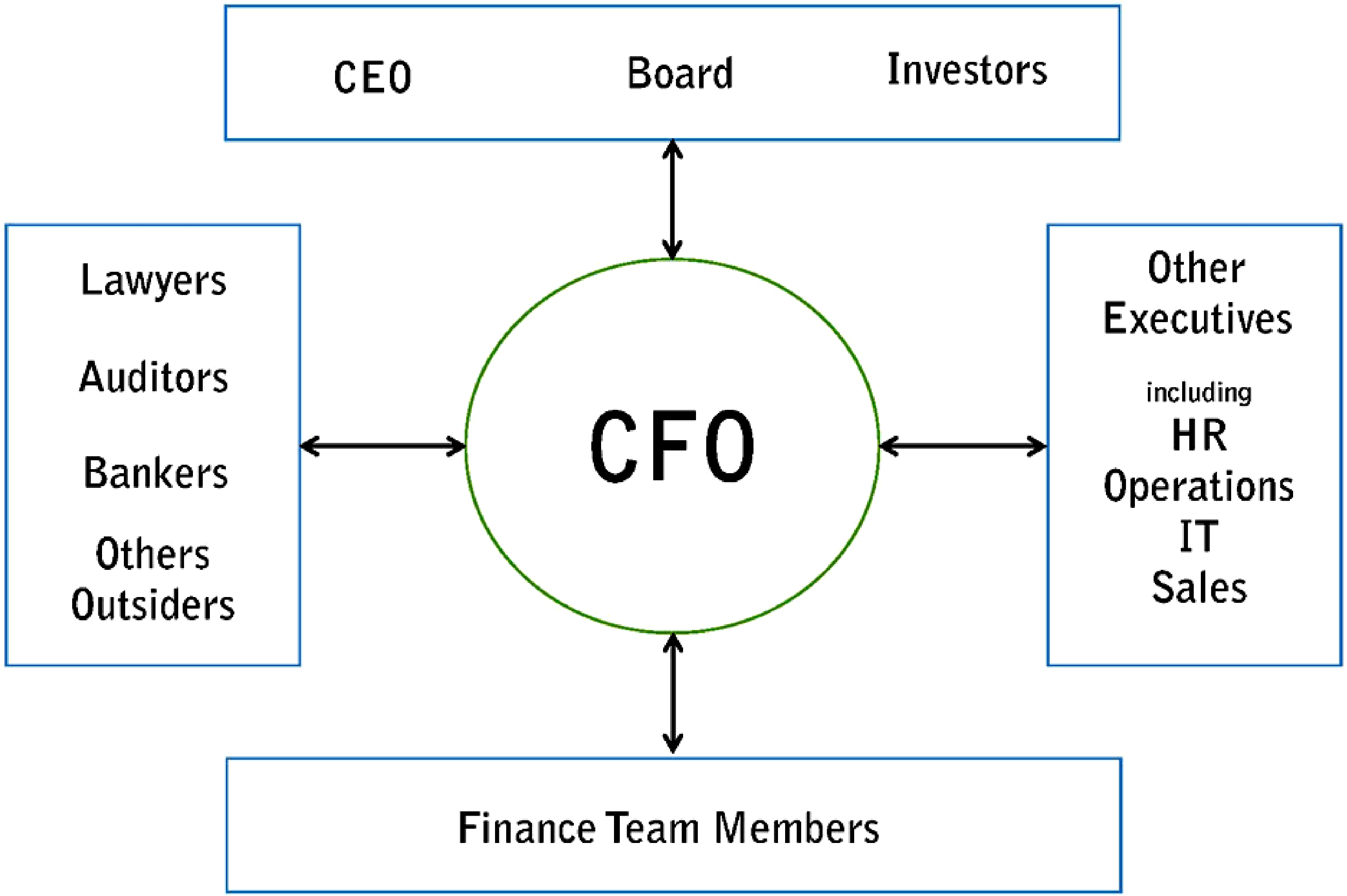
Financial management is an integrated decision-making process concerned with acquiring, financing, and managing assets to accomplish some overall goal within a business entity.

- Managerial Finance
- Corporate Finance
- Business Finance

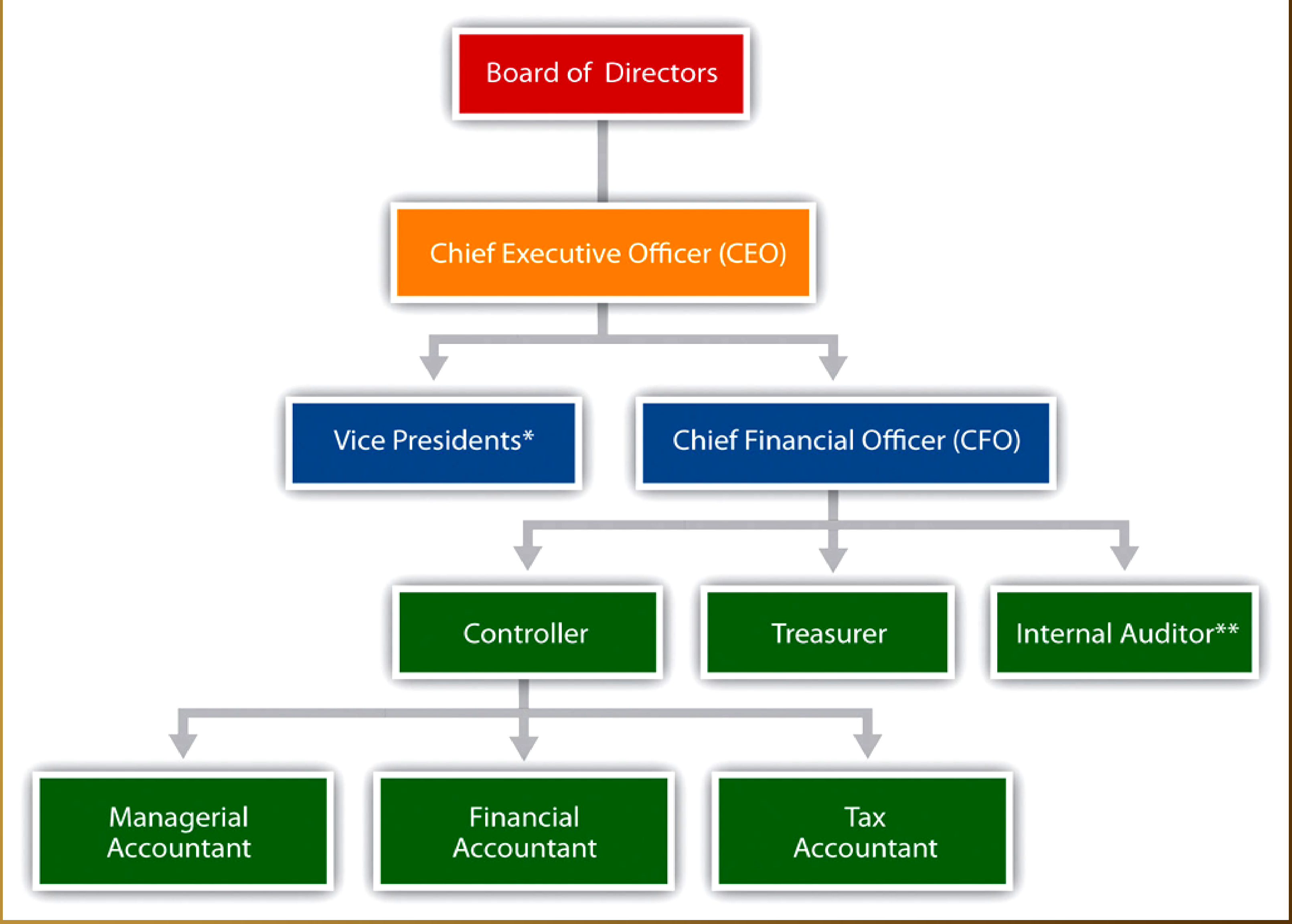



company
planning
manager
finance
chief financial officer (cfo)
analysis
business
growth
management

CFO Relationship Map



Finance in the Organizational Structure of the Firm



The Financial Controller Vs. Treasurer

	Treasurer		Controller
1	Provision of capital	1	Accounting
2	Relation with banks and other financial institutions	2	Preparation of financial reports
3	Cash management	3	Reporting and interpreting
4	Receivables management	4	Planning and control
5	Protect funds and securities	5	Internal audit
6	Investors relations	6	Tax administration
7	Audit	7	Reporting to government

SCOPE OF FINANCIAL MANAGEMENT

- Financial Management and Economics
- Financial Management and Accounting
- Financial Management and Mathematics
- Financial Management and Production Management
- Financial Management and Marketing
- Financial Management and Human Resource

Economics & Finance are related, but not the same.

Economics

- Social science
- Theory

Politics

- Process of allocating scarce resources

Policy

- End result of political process

Finance

- Deter-mined by policy

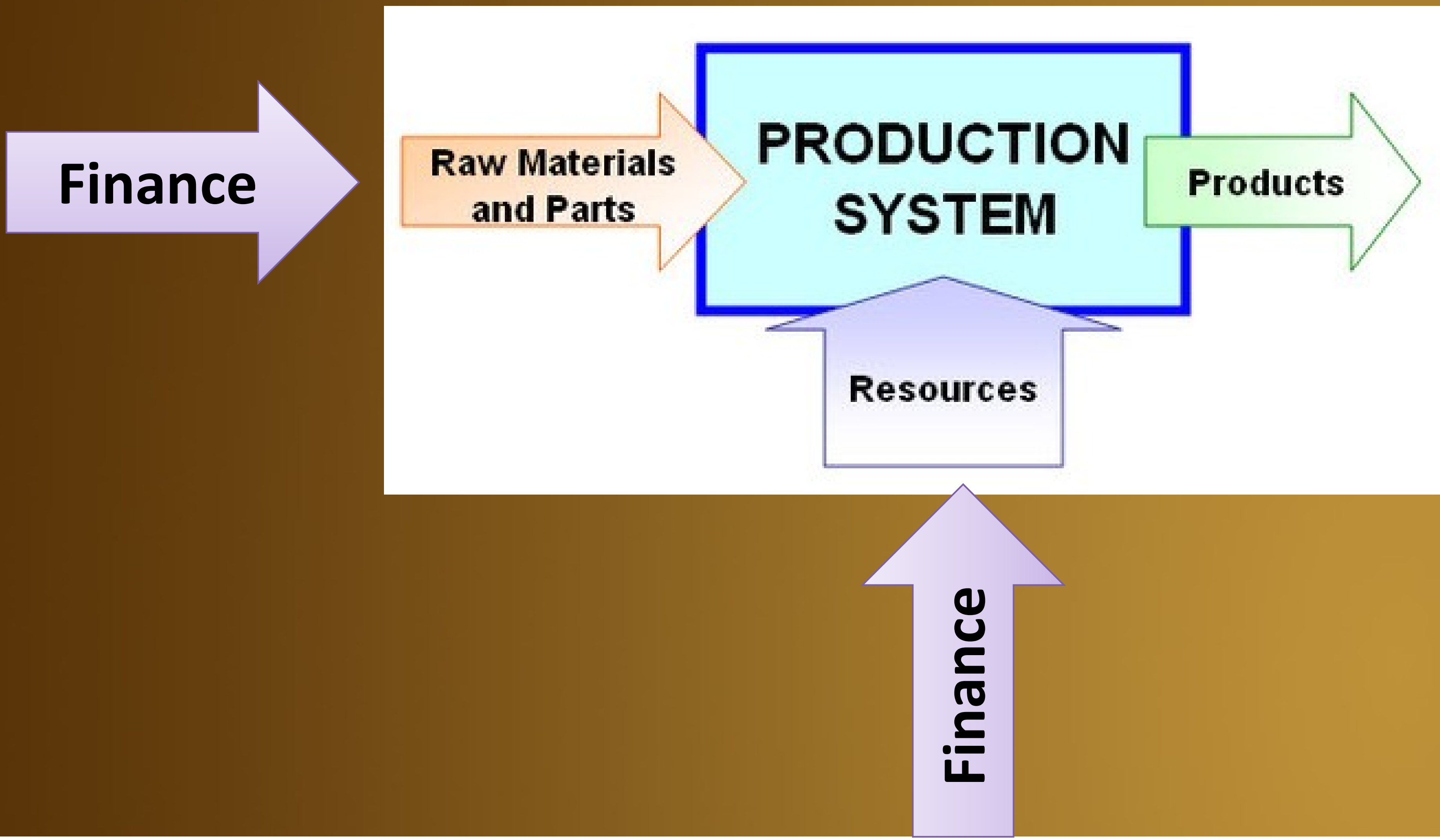
FINANCE vs. ACCOUNTING

- Finance is the study of how to allocate assets <u>optimally</u>. Finance is fundamentally a forward-looking field, concerned with future values.

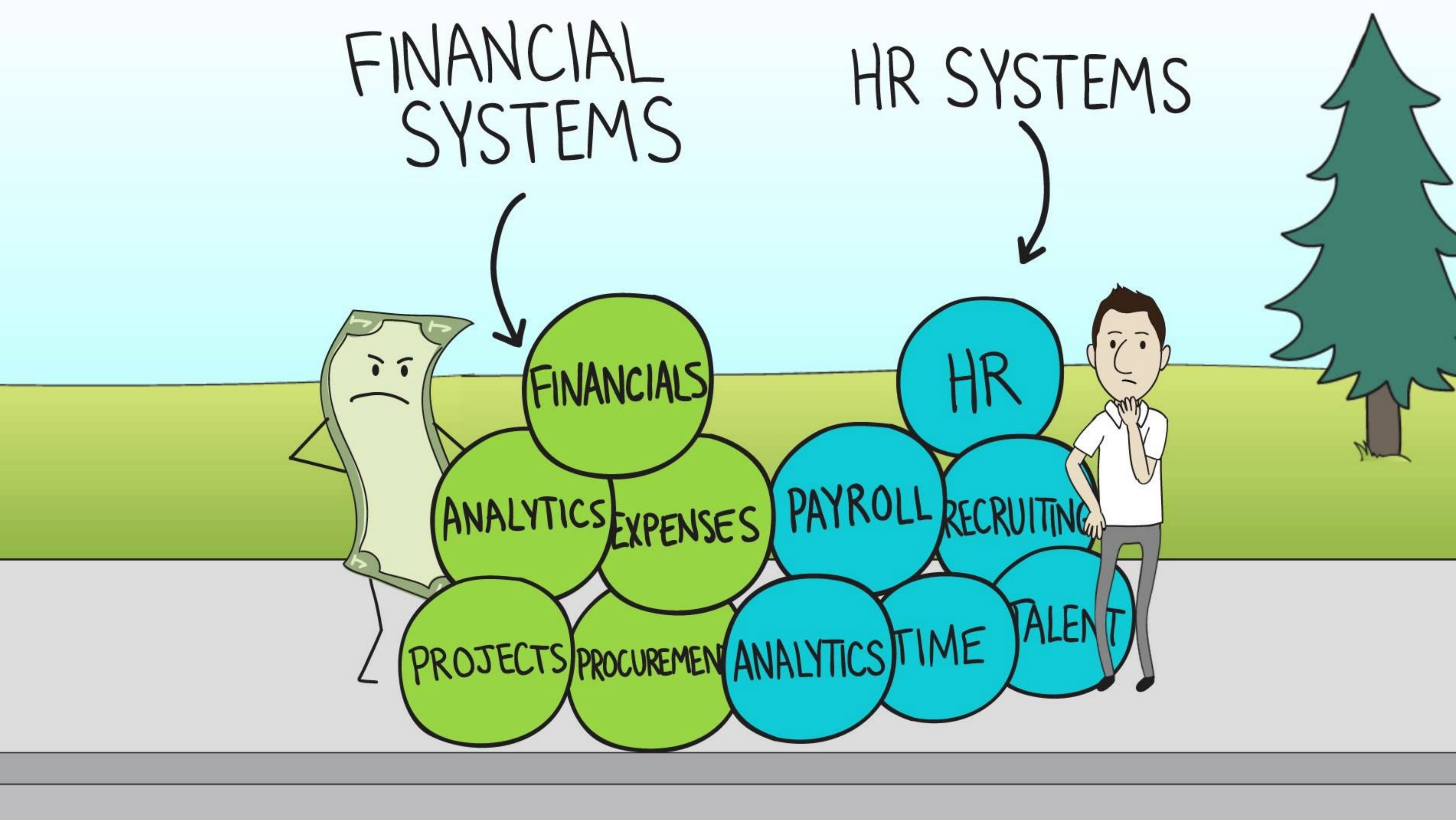
- Accounting is the process of communicating financial information about a business. Accounting is fundamentally a backward-looking field.

Financial Management and Mathematics

Financial Management and Production Management

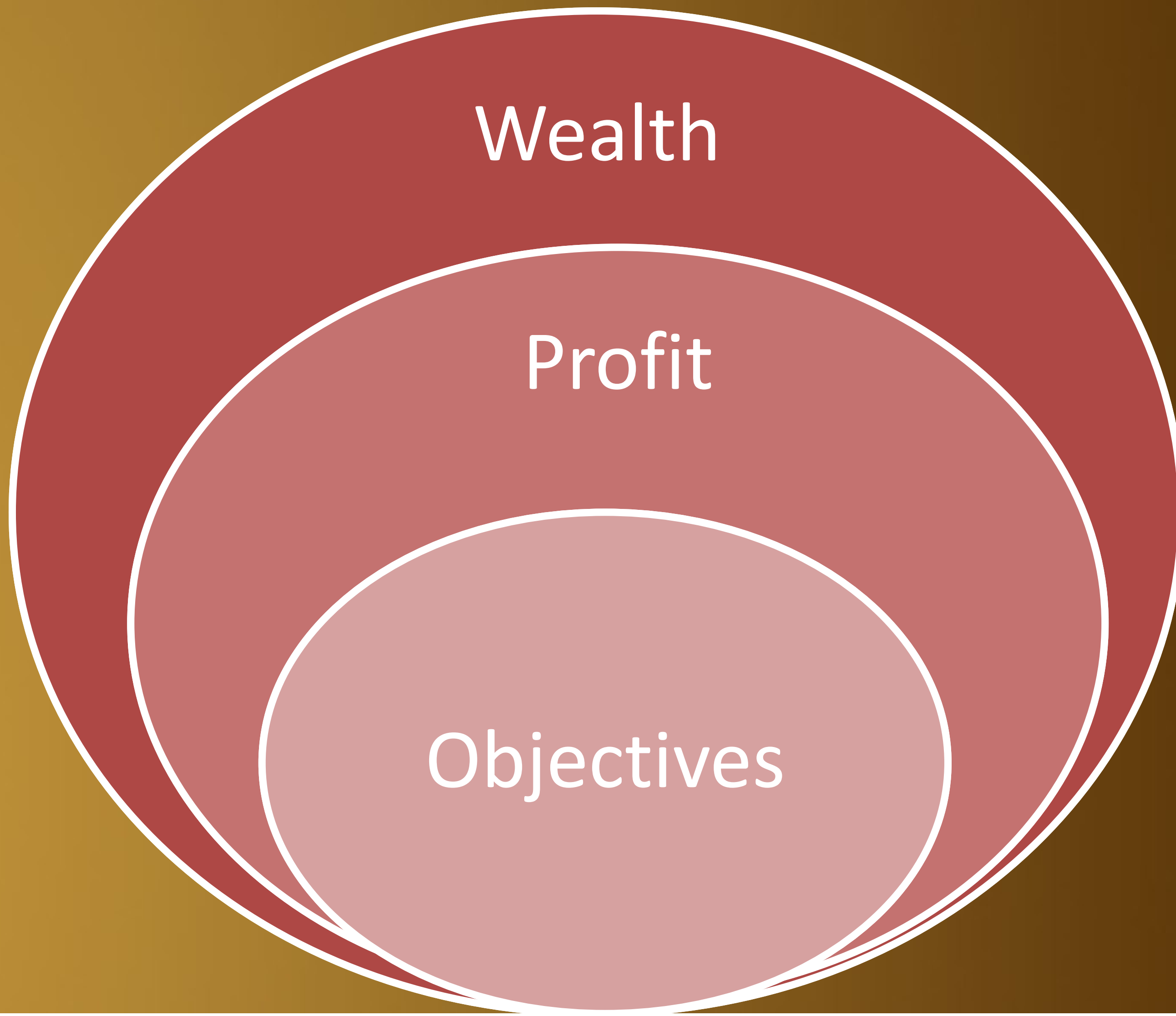



MARKETING
FINANCE
SUCCESS
SOLD


FINANCIAL SYSTEMS
HR SYSTEMS
FINANCIALS
ANALYTICS
EXPENSES
PROJECTS
PROCUREMEN
PAYROLL
HR
RECRUITIN
ANALYTICS
TIME
ALEN


Finance

OBJECTIVES OF FINANCIAL MANAGEMENT



PROFIT MAXIMIZATION

- Profit maximization is also called as cashing per share maximization. It leads to maximize the business operation for profit maximization.
- Ultimate aim of the business concern is earning profit.
- Profit is the parameter of measuring the efficiency of the business concern
- Profit maximization objectives help to reduce the risk of the business.

Favourable Arguments for Profit Maximization

- Main aim is earning profit.
- Profit is the parameter of the business operation.
- Profit reduces risk of the business concern.
- Profit is the main source of finance.
- Profitability meets the social needs also.

Unfavourable Arguments for Profit Maximization

- Profit maximization leads to exploiting workers and consumers.
- Profit maximization creates immoral practices such as corrupt practice, unfair trade practice, etc.
- Profit maximization objectives leads to inequalities among the sake holders such as customers, suppliers, public shareholders, etc.

Drawbacks of Profit Maximization

- It is vague
- It ignores the time value of money
- It ignores risk

Wealth Maximization

Favourable Arguments for Wealth Maximization

- Wealth maximization is superior to the profit maximization.
- Wealth maximization consider comparison of the value to cost a with the business concern.
- Wealth maximization consider time and risk of the business con
- Wealth maximization provides cient allocation of resources.
- It ensures the economic intere society.

Unfavourable Arguments for Wealth Maximization

❖ Wealth maximization leads to prescriptive idea of the business concern but it may not be suitable to present day business activities.

❖ Wealth maximization is nothing, it is also profit maximization, it is the indirect name of the profit maximization.

❖ Wealth maximization creates ownership-management controversy.

❖ Management alone enjoy certain benefits.

❖ The ultimate aim of the wealth maximization objectives is to maximize the profit.

❖Wealth maximization can be activated only with the help of the profitable position of the business concern.

Wealth or Profit Maximization?

Wealth Maximization	Profit Maximization
1. Emphasizes the long term gain 2. Recognizes risk and uncertainty 3. Recognizes timing of returns	1. Emphasizes the short term gains 2. Ignores risk or uncertainty 3. Ignores the timing of returns

- Wealth Maximization is preferred more over profit Maximization

ROLE OF FINANCIAL MANAGEMENT

Liquidity

- Forecasting cash flows
- Raising funds
- Managing the flow of internal funds

Profitability

- Cost control
- Pricing
- Forecasting Future Profits
- Measuring Cost of Capital

Management

- The management of long-term funds
- The management of short-term funds

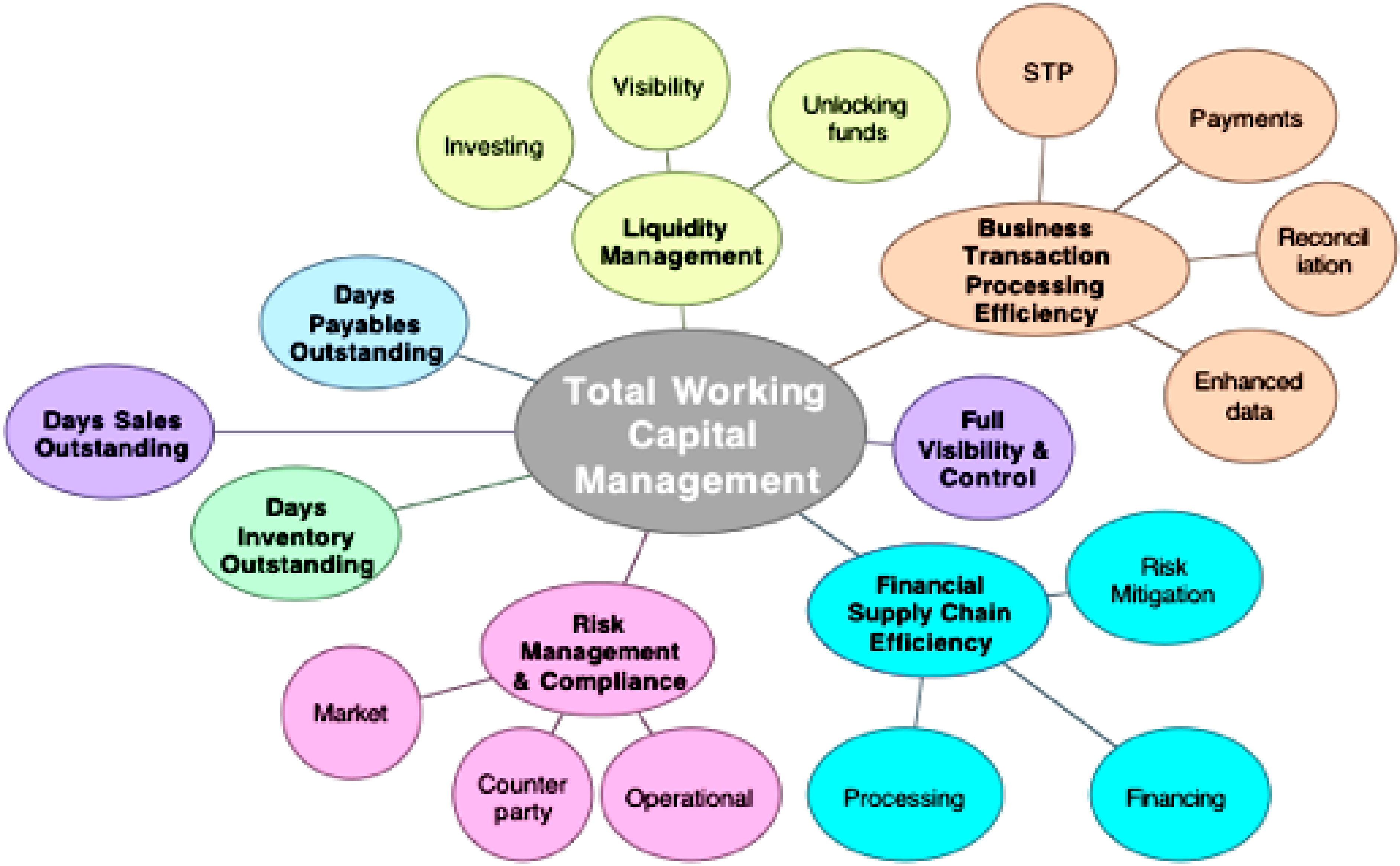
FUNCTIONS OF FINANCIAL MANAGEMENT

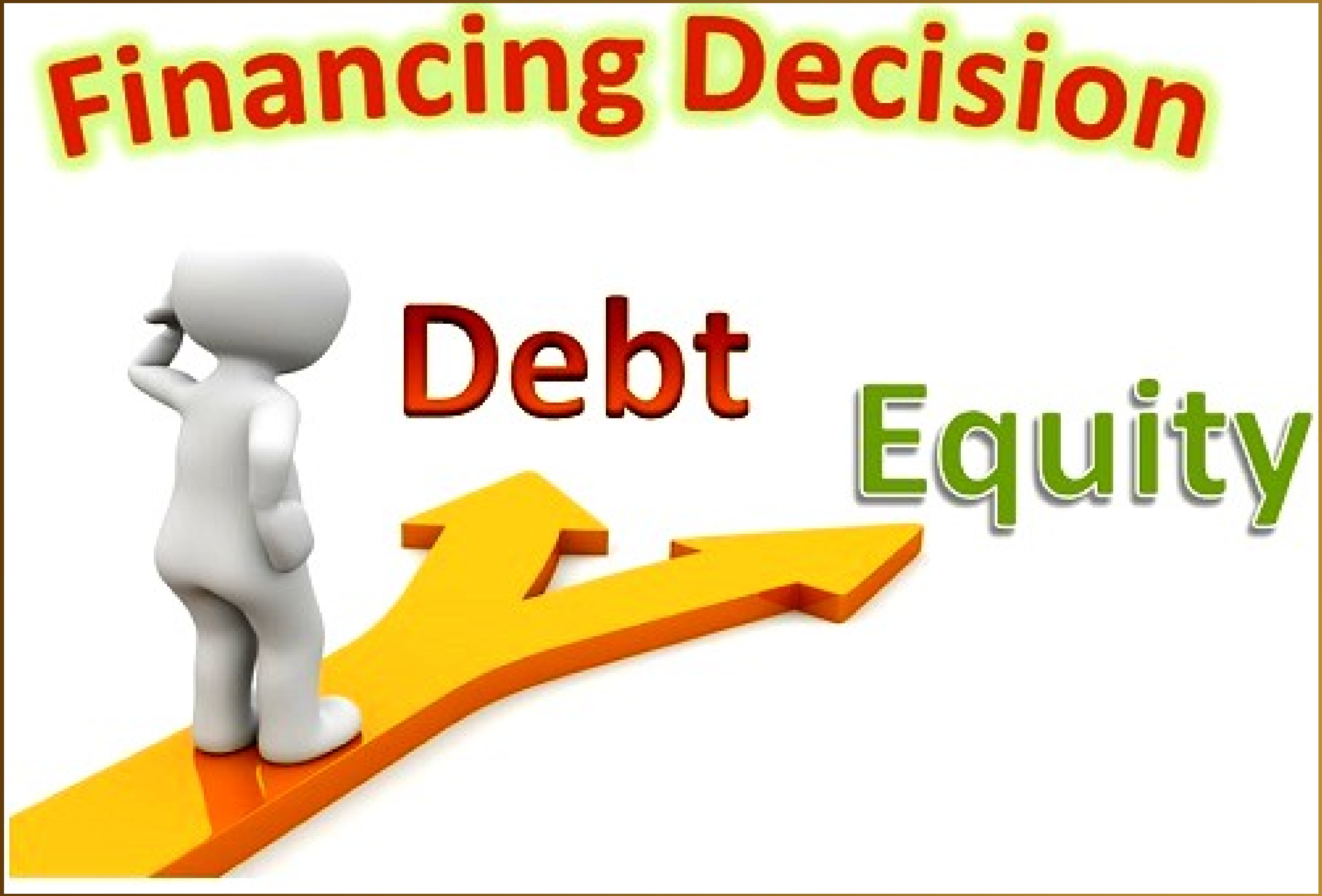
- INVESTMENT DECISIONS
  - Capital Budgeting
  - Working Capital Management
- FINANCING DECISIONS
  - Cost of Capital
  - Capital Structure Decisions
  - Leverages
- DIVIDEND DECISIONS
  - Dividend Policy
  - Retained - Earnings

Investment Decisions

Capital Budgeting means the long-range planning of allocation of funds among the various investment proposals

Investment Decisions



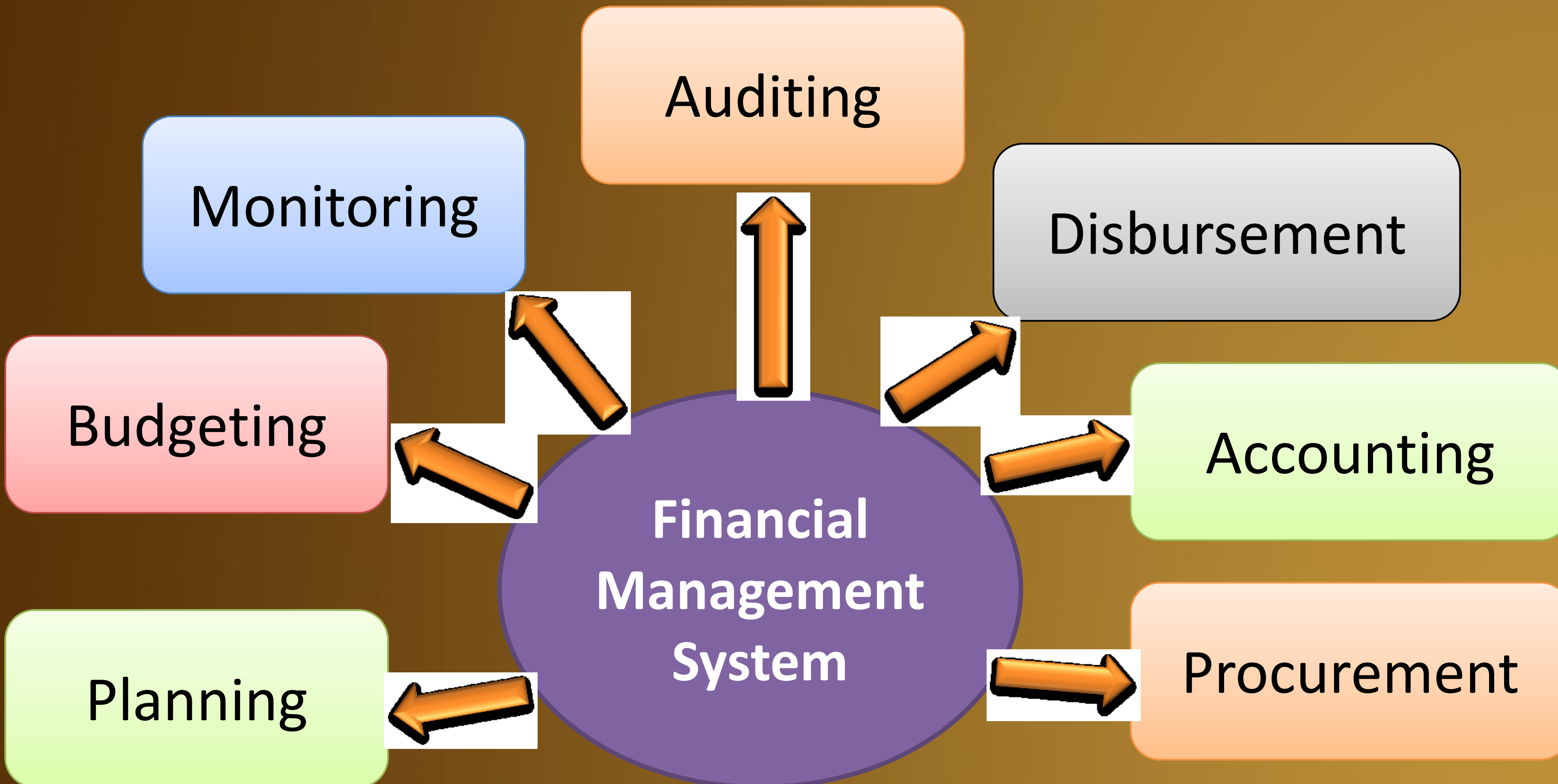

Financing Decision
Debt
Equity


DIVIDEND DECISION
RETAINED EARNINGS
DIVIDENDS

IMPORTANCE OF FINANCIAL MANAGEMENT

- Financial Planning
- Promoting Savings
- Acquisition of Funds
- Proper Use of Funds
- Increase the Value of the Firm
- Financial Decision
- Improve Profitability

FINANCIAL MANAGEMENT SYSTEM



AN EFFECTIVE FINANCIAL MANAGEMENT SYSTEM

improves short- and long-term business performance by:

- streamlining invoicing and bill collection,
- eliminating accounting errors,
- minimizing record-keeping redundancy,
- ensuring compliance with tax and accounting regulations,
- helping personnel to quantify budget planning,
- offering flexibility and expandability to accommodate change and growth.

Significant Features of a Good Financial Management System

- Keeping all payments and receivables transparent.
- Amortizing prepaid expenses.
- Depreciating assets according to accepted schedules.
- Keeping track of liabilities.
- Coordinating income statements, expense statements, and balance sheets.
- Balancing multiple bank accounts.
- Ensuring data integrity and security.
- Keeping all records up to date.
- Maintaining a complete and accurate audit trail.
- Minimizing overall paperwork.

PRINCIPLES OF FINANCIAL MANAGEMENT

- Consistency
- Viability
- Accountability
- Integrity
- Transparency
- Accounting Standards

CONSISTENT ACTION CREATES CONSISTENT RESULTS

- CHRISTINE KANE

ACCOUNTABILITY

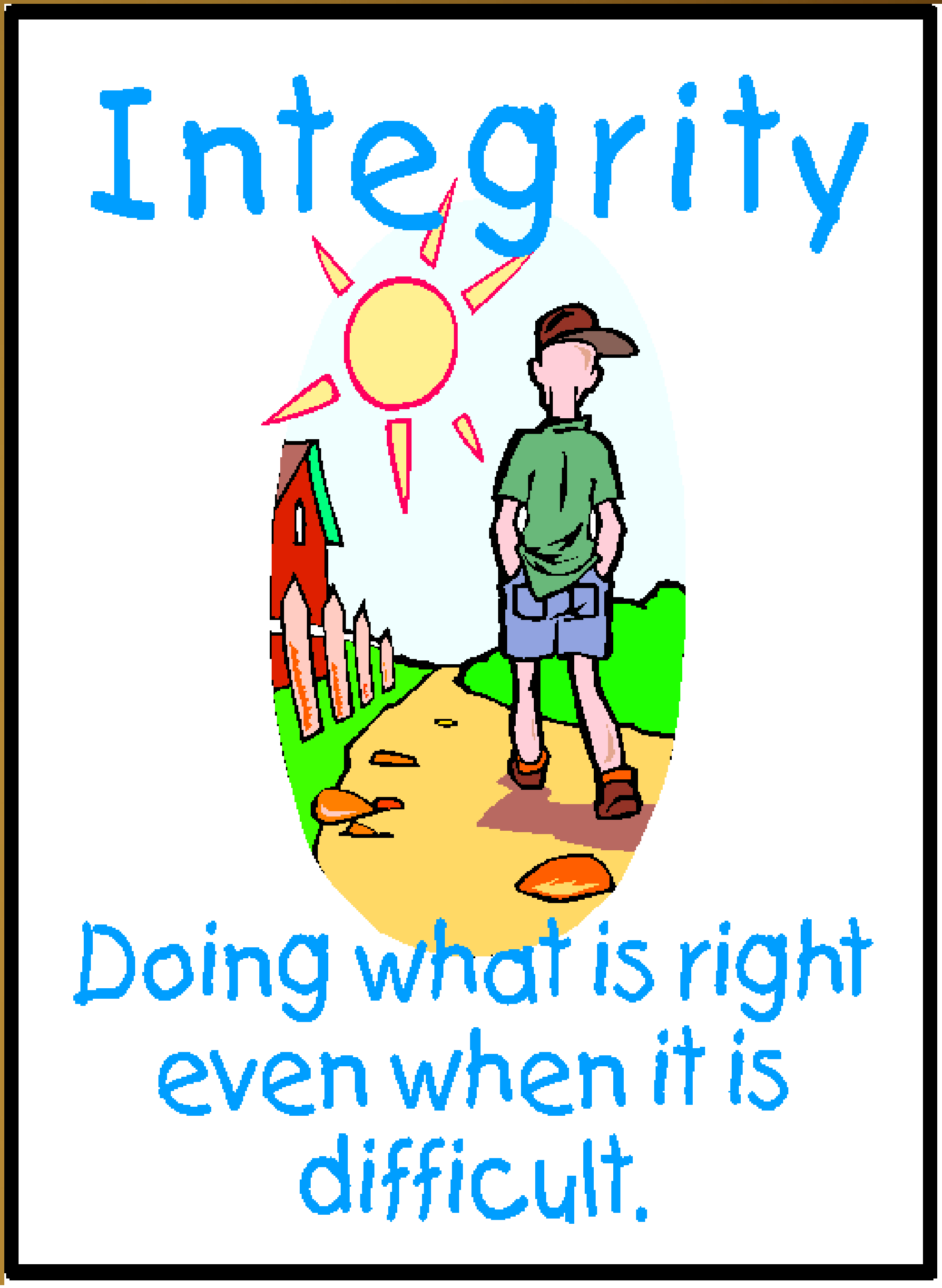
is the glue that ties

COMMITMENT

to **RESULTS**

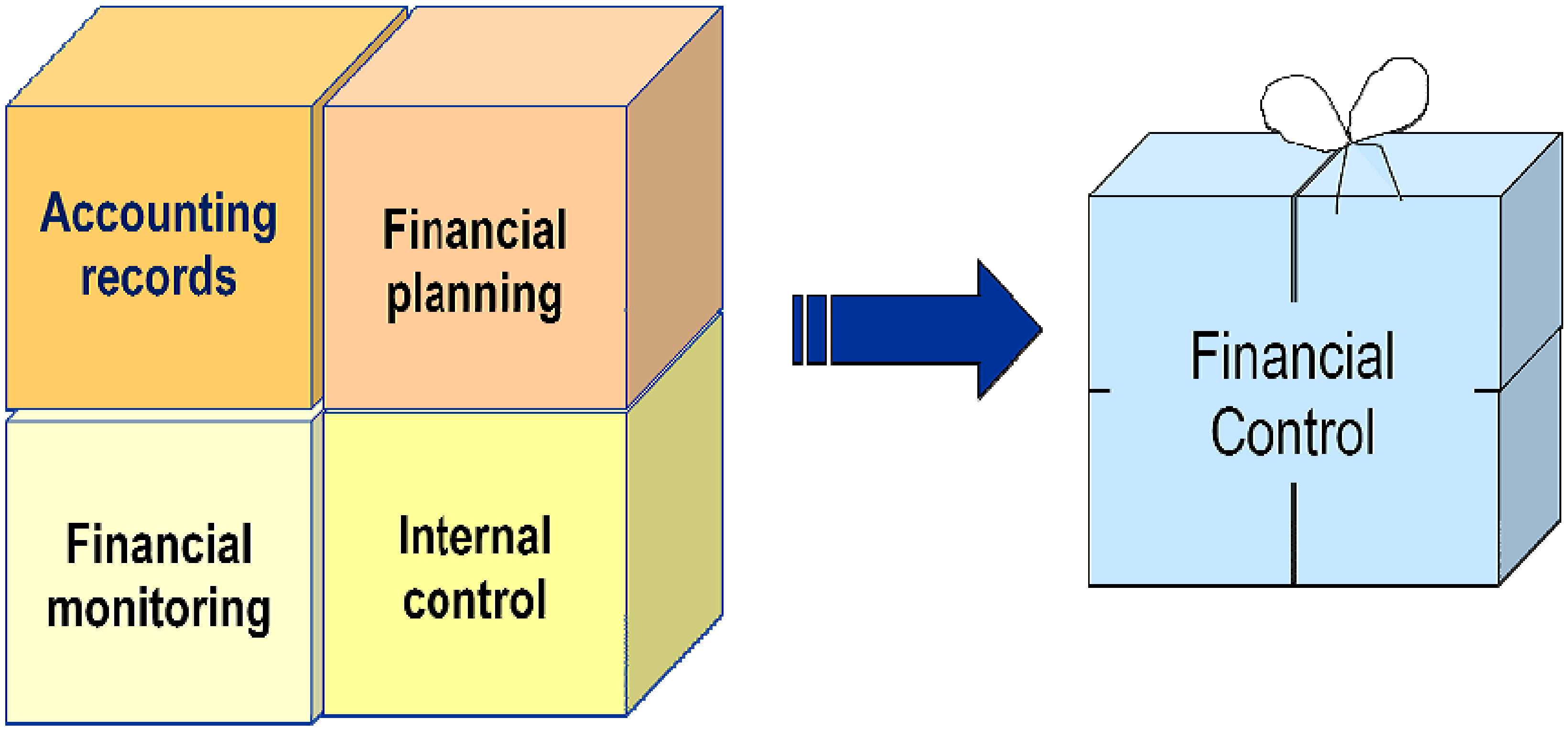

sincerity
fairness
clarity
transparency
honesty
openness
believability
truth
accuracy
directness
forthrig
tness

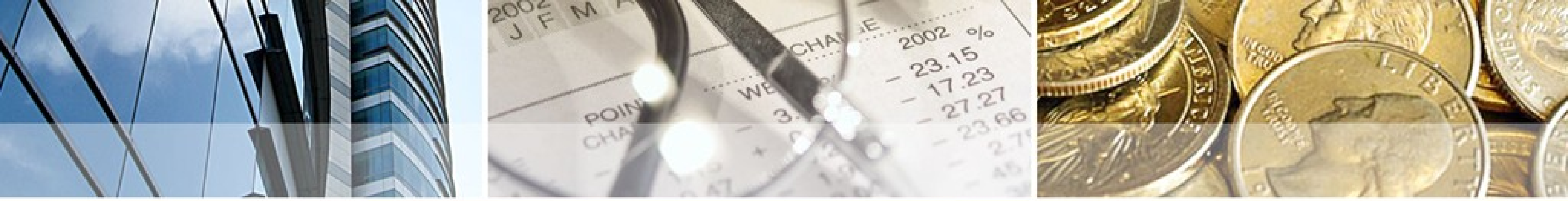

FINANCIAL VIABILITY


Integrity
Doing what is right even when it is difficult.


Accounting
Standards

FINANCIAL MANAGEMENT PROCESSES






THANK YOU!