10.3 Financial Management - Objectives, Purposes, Principles and Scope. Planning and Preparation of Budget. Mechanics of Purchase and Auditing

Financial Management

Financial management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the organization, institution or enterprise. In this, application of the general management principles to financial resources of the organization is the underlying idea. Generally, it deals with generating of funds and their effective utilization in the business or any enterprise. It is an area of financial decision-making, harmonizing individual motives and enterprise goals. What is true financial management in business, could be true elsewhere too where finances are a big issue and financial transaction, in whatever way, is involved. Financial management is a special field of interest and a separate discipline in itself. It isn't meant for commercial organizations only and it has nothing to do with non-profit activities like education, health or sport. Irrespective of its nature and scope, all entrepreneurship involves three major activities: inputs, functions and procedures, and output. Inputs refer to investment in terms of money, material and manpower, i.e. generation and utilization of resources. Activities and procedures are functions responsible for putting the inputs to use; they are means to achieve the ends. Finally, output is the outcome i.e. product or performance in some measurable form, the quality of which depends on the quality of interaction between the inputs and the functions. The entire process hinges on financial management. Better financial management lends greater credibility to the entrepreneurship - be it commercial or non-commercial.

Kuldip Roy, an executive at Elite Stock Management, argued: "Business finance deals primarily with raising, administering and disbursing funds by privately owned business units operating in non-financial fields of industry." *Financial management is the scientific manipulation and exploitation of our business and financial environment, using a range of statistical, mathematical, and economics tools, with the aim of making the best economic decision, under prevailing circumstances and availability of information and scarce resources. Fred J. Weston, a UCLA professor, defines financial management as* "an area of financial decision making, harmonizing individual motives and enterprise goals." In the perception of economist J.F. Bradlery: "Financial management is the area of business management devoted to a judicious use of capital and a careful selection of sources of capital in order to enable a business firm to move in the direction of reaching its goals." *It is an intelligent quest for optimal use of financial and other economic resources at our disposal. Tax matters are also considered.* It is a curious combination of mathematical and science precisions with variables from the ever-complex human behaviour.

Objectives of Financial Management

Financial management is crucial to business. It is considered as lifeline of a company. In general, it is concerned with procurement, allocation and control of financial resources of a concern - an institution, organization or an enterprise. Its major objectives are to ensure:

- *regular and adequate supply of funds* to the company, institution or organization through various proper sources.
- *adequate returns for the money invested* or being spent on different proposed and/or ongoing developmental works or projects and maintain a healthy financial state of the organization. In business, the major objective of financial management is to get adequate returns to the shareholders (the investors) which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
- *optimum utilization of funds available* with the concern or company. Procuring funds for the institution is undoubtedly important but more important is to utilize them profitably and optimally i.e. following the principles of economy and efficiency. For this the finance manager adopts

various strategies such as investing money in no unprofitable projects, saving money, having short-credit period, etc., to the institution's advantage.

- *mobilization of adequate funds from various sources* after assessing the requirements of various departments of the company or institution– both immediate and long-term. Effort is made procure funds by seeking government grants for various projects, bank loans, buying shares, debentures, etc.
- *survival of the company or the institution* under the rising competiiion in all spheres of life especially the trade and business world. Therefore, making right decisions at right times is critically important both for the finance and top management. One wrong decision can lead to physical or financial disaster.
- *safety on investment* i.e. funds should be invested in safe ventures so that adequate rate of return can be achieved.
- *proper coordination* between the financial department or section and other departments of the organization.
- *increased efficiency* of various departments or sections of the organization by distributing finances to or making budgetary provisions rationally and justifiably for them. This would require exerting due financial controls on each and every department of the organization.

Purposes of Financial Management

Purposes of financial management in physical education and sport may not be much different from what they are in world of business, trade and commerce.

- Financial management ensures regular, adequate and uninterrupted supply of funds for the organization/institution to survive and sustain itself even under severe resource-crunch conditions by preventing misuse and waste of funds, thus allowing the organization/institution remain vibrant and keep functioning comfortably.
- It ensures that the funds allocated are utilized optimally. Once funds are generated, they should be utilized in maximum possible way at least cost and for the purpose for which they are allocated.
- Financial management is one area where every individual in the organization or institution has to show up as the most responsible person in the formulation of policies and programmes vis.-a-vis. resource generation and resource utilization. This way, people learn to have a sense of responsibility and commitment towards organization.
- It serves as a golden key to open the doors of success for physical education programmes by economizing on resources, generating and spending funds efficiently and ensuring high standards of organization's economic health. The best programmes are developed and implemented

when fiscal management is at its very best.

- Good financial management brings about the much-needed synchronization between the programme objectives and the financial vibrancy of the organization/institution. In the event of disagreement between the two, priorities would have to be re-laid. Sixth, it ensures that the money is appropriated for various schemes, programmes and projects on the basis of situational analysis, research and in-depth study, and not on anyone's whims and whams, vested interests or subjective assessment.
- Finally, financial management makes sure that the infrastructure, facilities, equipment, supplies and personnel are put to optimal use. Remember, financially well-managed institutions and organizations need no external certification for efficiency, competitiveness and sound economic health. Fiscal mismanagement makes the organization fall into disrepute and disaster of the worst kind.

Principles of Financial Management

Whether in a multinational business organization like the Tatas or in city business concern, the system of financial management follows the same time-tested principles. When financial scruples are not followed in letter and spirit, severe management problem crop up, often putting spokes in the moving wheel of the organization and impacting its health negatively. Principles are guidelines for all those who are responsible for running the business or the institution and those dealing with finances.

Organize your Finances

Whether the aim of your organization is to create wealth as in case of a business trade firm or industrial unit or it is to run an endeavour like an education institution, organizing finances well is the first step towards better all-round management. When finances are in disarray, the possibility of waste of money, poor functioning of the organization and pushing the institution into a disrepute cannot be ruled out. Bankruptcy – be it in case of an individual or in an organization - occurs due to financial mismanagement only.

Spend less than you Earn

Financial management involves knowing your budgetary provisions, your liabilities and the stumbling blocks well and guides you to chart out priorities and make wise choices both in terms of generating financial resources and spending money. Being spindrift and saving money for the rainy day and for developmental works is an important proposition and a strategy. If you learn to track your finances and know where you spend the most, you will be able to control your money. The best way to ensure that you either overcome debt or avoid it in the first place is to never spend more than you make.

Put your Money to Work

Money increases when it is put to a productive use. Take advantage of the time value of money. This means that if you invest early, and often, even if the amount of small, it will get you rich dividends in due course. Though this principle is very much relevant to business enterprises, its implication nevertheless can be seen in educational institutions and sports establishments which often remain starved of financial resources.

Continuously Educate yourself

In business, you need to continuously educate yourself about the market and investment trends by reading financial times, periodicals and through internet so as to enter into smart deals and invest in profitable endeavours only. It is all the more important for you to understand why you are investing so that you will stick to your plan. Periodically gather research, so that you do not miss excellent investment opportunities. In sport and physical education such kinds of things do not exits except that you must know what your institution's financial status is at a particular point of time so that you make adjustment in your developmental plans and normal institutional activity.

Limit Debt to Income - Producing Assets

With credit cards and car loans, every penny you spend to repay that debt is money flushed down the drain. Therefore, wisdom lies in raising loans for any activity or purchase except those of dire necessity. Individuals and institutions that borrow too often and spend lavishly on non-productive items, find it difficult to create any assets. If you have to be in debt, stick to financing items that retain their value over time, like real estate and education.

Understand Risk

Business is sometimes can be a risky affair. It is like gambling where you cannot be winning all the time. You win gradually but lose abruptly as well as substantially. This is what happens in making investments in odd things in business. The key to understanding return on investments is that the more you risk, the better the return should be. This is called a risk-return trade-off. Investments like stock and bonds have a higher rate of return but often have a higher risk of losing the principal that you invested. Investments like certificates of deposit and money market accounts with a lower rate of return have a lower risk of losing principal.

Diversification is not just for Investments

You would good to find creative ways to diversify your income. Everyone has a talent or special skill. So, turn your talents into a money-making opportunity. Investigate ways to make money from home and launch a home-based business. The extra income can supplement your full-time income or even result in an exciting career change. Not only business, but also good organizations and institutions adopt this ingenious strategy to supplement their income to run and augment their activities.

Pay Attention to Taxes

Paying taxes is an obligation and one has to be very careful about making tax payment on time and in full. It is important to keep in focus the taxable investments and make no mistake in paying tax as per schedule. Astute financial management makes it incumbent on you to consider related tac implications for every investment that you make.

Plan for the Unexpected

Despite your best efforts, you will face unforeseen emergencies. That makes it important for you to save enough money for such kinds of exigencies and emergencies as medical care, instant infrastructure repairs, crucial equipment procurement and/or natural disasters. Increasing your savings when times are good, can help you manage the cost impact of hedging against bumps in the road, making sure unexpected financial exposure does not derail your long-term goals and your organization's financial security.

Scope of Financial Management

The traditional narrow financial management concept which covered raising finances, allocation of funds and the long-term growth of the enterprise, but ignored the management strategy, working capital, capital budgeting techniques, and planning, today stands discarded. The modern **financial management concept** is comprehensively broad. It works for the development of the business as an integral part of the management. It has a say in decision-making for the purpose of improving the business operations with the help of innovative methodology. It helps to associates the insider management with the outsider management. Instead of confining itself to liquidity preservation and raising of funds, it engages in financial planning, coordination, and control system for doing the proper business environment. Several activities fall under the purview of financial management.

- *Financial Planning*: Financial management plays a crucial role in the formulation of business policy, and financial plan as well as its procedures. Notably, it is "*thinking in advance*" and determining objectives, goals and innovative ideas for the business or organization. Designing a suitable format of capital structure with various sources of funds, and future development courses to keep pace with innovative or technological changes comes under financial planning.

- *Securing Capital funds*: After determination of the policy and its implementation procedures, focus now shifts to securing capital finances from individuals and institutions. Capital is the biggest source, rather an anchor, of r... ning a specific business or institution.
- *Financial Supervision*: Once funds collection is accomplished, the process of effective fixed assets management begins by using new budgeting techniques. The company is assisted to utilize those assets in a proper manner and also to maintain them properly. Then comes maintaining optimum level of liquidity (cash) i.e. keeping a strict watch on cash-in-flows and cash-outflows.
- *Financial Control*: Financial control means proper utilization of investment in miscellaneous assets like manpower. This necessitates formulation of a budgetary control system through which the actual cost of the company will be kept within limits and targeted profits earned by the company. Financial control also underlines fixing company's standards, building the sustained comparison between actual cost and pre-determined standards, outlining remedial action, establishing a follow-up system, and modifying norms and standards, if and when needed.
- *Financial Decisions*: Taking financial decisions is extremely important and very helpful in maximizing the growth and potential of the business. Decisions with regard to investment, financing, and dividends are vitally important for the financial management in an organization because they impact every stakeholder.
- *Preparation of Annual Financial Statements:* This refers to preparation of financial statements including profit & loss account and balance sheet. Along with income and expenditure, these reflect the financial reputation or condition of the organization during a working period usually a financial year.
- *Estimation of Financial Performance*: Annual and time-to-time evaluation of performance is a significant task of financial management especially the financial manager. While conducting evaluation, various turnover variables like ratio analysis, trend analysis, net profit, cost per unit, and Return on Investment need sharp focusing in order to judge and compare the past and current performance of the organization.
- *Miscellaneous Functions:* Several other variables such as tax-planning, management of the provident fund, gratuity, safety of