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PREPARING THE REPORT ON FINANCE MANAGEMENT: A STUDY

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In our present day economy, **"FINANCE"** is defined as the provision of money at the time when it is required. Every enterprise, whether big, medium of small, needs finance to carry on its operations and to achieve its targets. Finance is so indispensable today that it is the lifeblood of an enterprise. Without adequate finance, no enterprise can possibly accomplish its objectives. Finance" is the life blood and nerve system of any business organization. Just as circulation of blood, is necessary in the human body to maintain life. Finance is necessary in the business org. for smooth running of the business. Financial management involves managerial activities concerned with the procurement and utilization of funds for business purpose the finance function does with procurement of money taking in to consideration of today's as well as future need and its effective utilization. Since finance is required to purchase of machinery and raw materials, to pay salaries and wages also for day-to-day expenses. Financial management entails planning for the future of a person or a business enterprise to ensure a positive cash flow. It includes the administration and maintenance of financial assets. Besides, financial management covers the process of identifying and managing risks. The primary concern of financial management is the assessment rather than the techniques of financial quantification. A financial manager looks at the available data to judge the performance of enterprises. Managerial finance is an interdisciplinary approach that borrows from both managerial accounting and corporate finance. Some experts refer to financial management as the science of money management. The primary usage of this term is in the world of financing business activities. However, financial management is important at all levels of human existence because every entity needs to look after its finances.

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INTRODUCTION

Broadly speaking, the process of financial management takes place at two levels. At the individual level, financial management involves tailoring expenses according to the financial resources of an individual. Individuals with surplus

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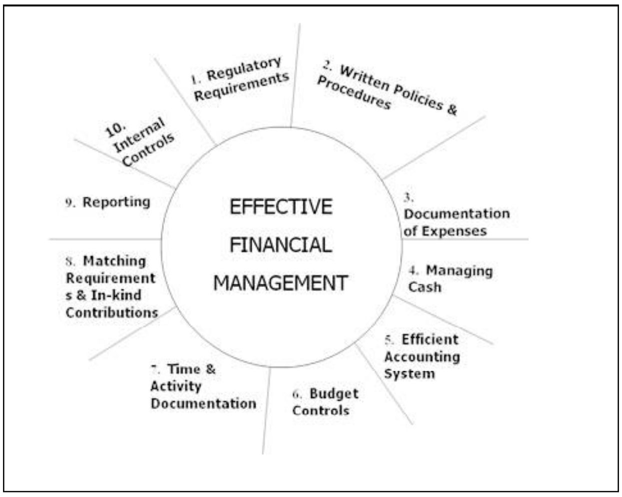
cash or access to funding invest their money to make up for the impact of taxation and inflation. Else, they spend it on discretionary items. They need to be able to take the financial decisions that are intended to benefit them in the long run and help them achieve their financial goals. From an organizational point of view, the process of financial management is associated with financial planning and financial control. Financial planning seeks to quantify various financial resources available and plan the size and timing of expenditures. Financial control refers to monitoring cash flow. Inflow is the amount of money coming into a particular company, while outflow is a record of the expenditure being made by the company. Managing this movement of funds in relation to the budget is essential for a business.At the corporate level, the main aim of the process of managing finances

Is to achieve the various goals a company sets at a given point of time. Businesses also seek to generate substantial amounts of profits, following a particular set of financial processes.Financial managers aim to boost the levels of resources at their disposal. Besides, they control the functioning on money put in by external investors. Providing investors with sufficient amount of returns on their investments is one of the goals that every company tries to achieve. Efficient financial management ensures that this becomes possible. Financial Management is the process of managing the financial resources, including accounting and financial reporting, budgeting, collecting accounts receivable, risk management, and insurance for a business. The financial management system for a small business includes both how you are financingit as well as how you manage the money in the business. In setting up a financial management system your first decision is whether you will manage your financial records yourself or whether you will have someone else do it for you. There are a number of alternative ways you can handle this. You can manage everything yourself; hire an employee who manages it for you; keep your records in-house, but have an accountant prepare specialized reporting such as tax returns; or have an external bookkeeping service that manages financial transactions and an accountant that handles formal reporting functions. Some accounting firms also handle bookkeeping functions. Software packages are also available for handling bookkeeping and accounting. Bookkeeping refers to the daily operation of an accounting system, recording routine transactions within the appropriate accounts. An accounting system defines the process of identifying, measuring, recording and communicating financial information about the business. So, in a sense, the bookkeeping function is a subset of the accounting system. A bookkeeper compiles the information that goes into the system. An accountant takes the data and analyzes it in ways that give you useful information about your business. They can advise you on the systems needed for your particular business and prepare accurate reports certified by their credentials. While software packages are readily available to meet almost any accounting need, having an accountant at least review your records can lend credibility to your business, especially when dealing with lending institutions and government agencies. Setting up an accounting system, collecting bills, paying employees, suppliers, and taxes correctly and on time are all part of running a small business. And, unless accounting is your small business, it is often the bane of the small business owner. Setting up a system that does what you need with the minimum of maintenance can make running a small business not only more pleasant, but it can save you from problems down the road. The basis for every accounting system is a good Bookkeeping system. What is the difference between that and an accounting system? Think of accounting as the big picture of how your business runs — income, expenses, assets, liabilities — an organized system for keeping track of how the money flows through your business, keeping track that it goes where it is supposed to go. A good bookkeeping system keeps track of the nuts and bolts — the actual transactions that take place. The bookkeeping system provides the numbers for the accounting system. Both accounting and bookkeeping can be contracted out to external firms if you are not comfortable with managing them yourself. Even if you outsource the accounting functions, however, you will need some type of Record keeping Systemsto manage the day-to-day operations of your business - in addition to a financial plan and a budget to make certain you have thought through where you are headed in your business finances. And, your accounting system should be producing Financial Statements. Learning to read them is an important skill to acquire. Another area that your financial management system needs to address is risk. Any good system should minimize the risks in your business. Consider implementing some of these risk management strategies in your business. Certainly, insurance needs to be considered not only for your property, office, equipment, and employees, but also for loss of critical employees. Even in businesses that have a well set up system, cash flow can be a problem. There are some tried and true methods for Managing Cash Shortages that can help prevent cash flow problems and deal with them if they come up. In the worst case you may have difficulties meeting all you debt obligations. Take a look at Financial Difficulties to learn more about ways to manage situations in which you have more debt than income. It is possible you may even be at the a point where you want to sell the business or simply close it and liquidate assets. There are financial issues involved for these circumstances too. So, be certain that you know what steps you need to take in order to protect yourself financially in the the long run. Clearly, financial management encompasses a number of crucial areas of your business. Take time to set them up right. It will make a significant difference in your stress levels and in the bottom line for your business.



FINANCIAL PLANNING

Financial planning is often thought of as a way to manage debt, but a good financial plan really is a way to make certain that you have financial security throughout your life. Many small business owners consider their business as their investment in their future, but that is a huge risk to take. As any economist will tell you, diversification is the only sure way to create security in the long run. Your business is one stream of income. Putting together a financial plan that allows for multiple streams of income is what provides you security in the longer term.The essential components of a good financial plan are investing, retirement planning, insurance, borrowing and using credit, tax planning, having a will, and ensuring the right people receive your assets. Financial planning is the process of meeting your life goals through the proper management of your finances. Life goals can include buying a home, saving for your child's education or planning for retirement.The financial planning process involves gathering relevant financial information, setting life goals, examining your current financial status and coming up with a plan for how you can meet your goals given your current situation and future plans. There are personal finance software packages, magazines and self-help books to help you do your own financial planning. However, you may decide to seek help from a professional financial planner.

- You need expertise you don't possess in certain areas of your finances. For example, a planner can help you evaluate the level of risk in your investment portfolio or adjust your retirement plan due to changing family circumstances.
- You want to get a professional opinion about the financial plan you developed for yourself.
- You don't feel you have the time to spare to do your own financial planning.
- You have an immediate need or unexpected life event such as a birth, inheritance or major illness.
- You feel that a professional adviser could help you improve on how you are currently managing your finances.
- You know that you need to improve your current financial situation but don't know where to start.

A financial planner is someone who uses the financial planning process to help you figure out how to meet your life goals. The planner can take a "big picture" view of your financial situation and make financial planning recommendations that are right for you. The planner can look at all of your needs including budgeting and saving, taxes, investments, insurance and retirement planning. Or, the planner may work with you on a single financial issue but within the context of your overall situation. This big picture approach to your financial goals may set the planner apart from other financial advisers, who may have been trained to focus on a particular area of your financial life.In addition to providing you with general financial planning services, many financial planners are also registered as investment advisers or hold insurance or securities licenses that allow them to buy or sell products. Other planners may have you use more specialized financial advisers to help you implement their recommendations. With the right education and experience, each of the following advisers could take you through the financial planning process. Ethical financial planners will refer you to one of these professionals for services that they cannot provide and disclose any referral fees they may receive in the process. Similarly, these advisers should refer you to a planner if they cannot meet your financial planning needs.

ACCOUNTANT

Accountants provide you with advice on tax matters and help you prepare and submit your tax returns to the Internal Revenue Service. All accountants who practice as Certified Public Accountants (CPAs) must be licensed by the state(s) in which they practice.

ESTATE PLANNER

Estate planners provide you with advice on estate taxes or other estate planning issues and put together a strategy to manage your assets at the time of your death. While attorneys, accountants, financial planners, insurance agents or trust bankers may all provide estate planning services, you should seek an attorney to prepare legal documents such as wills, trusts and powers of attorney. Many estate planners hold the Accredited Estate Planner (AEP) designation.

FINANCIAL PLANNER

Many financial planners have earned the Certified Financial Planners certification, or the Chartered Financial Consultant (CFC) or Personal Financial Specialist (CPA/PFS) designations. Financial planners can take you through the financial planning process.

INSURANCE AGENT

Insurance agents are licensed by the state(s) in which they practice to sell life, health, property and casualty or other insurance products. Many insurance agents hold the Chartered Life Underwriter (CLU) designation. Financial planners may identify and advise you on your insurance needs, but can only sell you insurance products if they are also licensed as insurance agents.

INVESTMENT ADVISER

Anybody who is paid to provide securities advice must register as an investment adviser with the Securities and Exchange Commission or relevant state securities agencies, depending on the amount of money he or she manages. Because financial planners often advise people on securities-based investments, many are registered as investment advisers. Investment advisers cannot sell securities products without a securities license. For that, you must use a licensed securities representative such as a stockbroker.

STOCK BROKER

Also called registered representatives, stockbrokers are licensed by the state(s) in which they practice to buy and sell securities products such as stocks, bonds and mutual funds. They generally earn commissions on all of their transactions. Stockbrokers must be registered with a company that is a member of the National Association of Securities Dealers (NASD) and pass NASD-administered securities exams.The government does not regulate financial planners as financial planners; instead, it regulates planners by the services they provide. For example, a planner who also provides securities transactions or advice is regulated as a stockbroker or investment adviser. As a result, the term “financial planner” may be used inaccurately by some financial advisers. To be sure that you are getting financial planning advice, ask if the adviser follows the six steps.There are three types of working capital, Gross working capital, Net working capital and fixed working capital.

1. **Gross Working Capital:** It refers to the firm’s investment in current assets i.e. mainly stock, debtors, bills receivables and cash. This is also known as ‘Current capital concept’ or Circulating capital concept’. It is represented by the sum total of the current assets of the enterprise. It is known as Circulating capital’ because current assets of a company are changed from one form to another, for e.g. from cash to inventories, inventories to

receivable to cash.The Gross capital concept focuses attention on two aspects of current assets management:a) Optimum investment in current assets and b) Financing of current assets.

2. **Networking capital:** It is difference between the current assets and current liabilities. Alternatively it is that portion of the firm's current assets, which is financed by long-term funds. Net working capital being the difference between current assets and current liabilities is quantitative concepts.

   a) It indicates the liquidity position of the firm.

   b) Suggests the extent to which working capital needs may be financed by

Permanent sources of funds.

3. **Fixed working capital:** Every firm is required to maintain balance of cash, inventory etc, in order to meet the business requirement even in the slack seasons. This part of current assets is called as permanent or fixed working capital.

COMPONENTS OF WORKING CAPITAL

Cash brought in the business is used for purchase of raw material or payment of wages and other expenses incurred for converting raw material into finished goods. Goods once manufactured are sold and cash is realized from customers.

So the working capital includes the current assets like cash and bank, inventory, receivables etc. it is presented in the following operations circle with the cash, raw material, finished goods and receivables showing various linkages.

NEEDS OF WORKING CAPITAL

Every firm differs in the requirement of working capital. The firm's aim is how effectively utilized working capital to maximize the wealth and sufficient returns from its operations. It depends upon the steady growth of profits and successful sales activity. For this we have to invest enough funds in the current assets for the achievement of the sales activity. Investment in current assets is needed, as sales do not convert in to cash intentionally, operating cycle involve, in conversion of sales in to cash. Operating cycle is the duration of, time required to convey sales after conversion of resources in to inventory and cash.The working capital needs of a firm are influenced by numerous factors. The important ones areNature of Business, Seasonality of operations, Production policy, Market condition, Conditions of supply.Several strategies are available to a firm for financing its capital requirement. An important one is based on the matching principle. According to this principle, the maturity of the sources of finance should match the maturity of the assets being financed. This means the fixed assets and permanent current assets should be supported by long term sources of finance whereas fluctuating current assets must be supported by short- term sources of finance.

TYPES OF WORKING CAPITAL

Depending upon the nature of the funds blocked, working capital can be of two types

- PERMANENT WORKING CAPITAL
- VARIABLE WORKINGCAPITAL

PERMANENT OR REGULAR WORKING CAPITAL

The magnitude of the current assets depends upon the firms operating cycle. The operating cycle is a continuous process and the need for current assets is also continuously. But the level of current assets needed is not always same. It increase or decreases overtime. However there is always minimum level of current assets which is continues required by a firm to carry out its business operations. The minimum level of current assets which is continues required by a firm to carry out its business operations. The minimum level of current assets is called permanent or fixed working capital. It represents the minimum amount of investment in current assets that is seemed necessary to carry on operations at time. It is also known as 'hard core'. It is of two kinds:

a) **INITIAL WORKING CAPITAL:** At its inception and during the formation period of its operations, a company must have enough cash funds to meet its obligations. In the initial year it as revenues may not be regular and adequate credit arrangements may not be available from banks, financial institutions, etc., till it has established its credit standing, credit may have to be granted on sales to attract the customers.

b) **REGULARWORKINGCAPITAL**: It is the amount of working capital needed for the continuous operations of the business of the company. It refers to the excess of current assets over the current liabilities so that the process of conversion of cash into stock, stock into sales, receivables and collections is maintained without any breaks.

VARIABLE WORKING CAPITAL

This working capital required over and above the permanent working capital depends upon changes in production and sales are called fluctuating or variable working capital or temporary working capital. There may be changes either increase or decrease in working capital. Many the variable working capital required in season dependent. It represents additional assets required at different times during the operating year to cover any change or variability from the normal operations. It can be of two parts:

A. Seasonal working capital: The amount to be blocked due to seasonal nature of industry. Examples are package tours and summer tours. Obviously it refers to financial requirement that cope up during that particular season. Beyond their initial and regular circulating capital most business will require at started intervals a large amount of current assets to fill the demands of the seasonal busy periods.

B. Special Working Capital: Extra funds are needed to meet contingencies, festivals, and special occasions. All business enterprises have to be prepared to meet unforeseen eventualities that may arise in the course of their operations. Therefore, they must have extra funds at 'Unstated Periods' to meet contingencies.

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