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IMPORTANCE AND ROLES OF FINANCIAL MANAGEMENT AND PLANNING IN THE BUSINESSES

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ABSTRACT

The application of general management concepts to the different financial resources that are projecting is referred to as financial management. This involves the planning, organizing, directing, and regulating of financial activity. The process of financial planning is described as follows defining financial objectives, rules, processes, plans, and budgets. This assures effective and appropriate financial and investment policies, adequate money, a suitable balance between outflows and inflows of funds, and suppliers of funds, preparation of programs of development and expansion that help in the company's long-term survival, as well as the elimination of uncertainty related to shifting market trends that the company may face, ensuring stability and profitability.

KEYWORDS: *Finance, Management, Business, Planning, Organization.*

INTRODUCTION

Financial management is the use of financial estimations to impact an organization's financial status. Financial management helps companies to plan, use projects, future financial realizations of capital, property, and essential items in order to maximize the return on investment.[1]

Financial planning is the first phase of financial management, and it refers to the management of total cash flows required to provide the necessary funds, predict the overall inflow and outflow of funds, and perform financial control not only on current but also on future financial and business events. Financial planning is carried out in organizations in order to forecast future financial results and to identify the best method for the firm to use its financial resources to meet its short-term and long-term objectives.

In an organization, financial planning is an activity that defines how the organization will achieve its strategic goals. Typically, an organization's financial plan is developed after it has established its vision and goals for its operations. Financial planning decides which raw materials will be purchased, which goods will be manufactured, and how they will be sold on the market in the most effective manner. Financial planning has an influence on the people and material resources that will be employed to enable the firm to operate. Financial planning is an important aspect in deciding whether or not a firm can run a profitable operation.[2]

FEATURES OF FINANCIAL MANAGEMENT

Financial management entails the planning, arranging, directing, and regulating financial operations such as asset acquisition and utilization. Financial management applies general management ideas to the financial resources of the company. Financial management consists of the following components:

I. Investment decisions entail both investments in fundamental assets (capital) and investments in current assets (working capital).
II. Financial decisions entail judgments concerning the rise of finances from various sources, the timing of financing, the expenses for assets, and the return of those assets.
III. Dividend decisions entail allocating net earnings into two categories: dividends to shareholders and residual profit.[3]

The acquisition, allocation, and control of financial resources is the focus of financial management in general. Financial management has the following objectives:

I. regular and suitable provision of money, to give a consistent return to shareholders, depending on earning capability, share market price, and shareholder expectations
II. To make the most use of the available resources Because the assets have been supplied, they should be utilized to the greatest extent possible while incurring the least amount of expense.
III. to offer investment security, that is, to invest money in safe ventures and therefore generate a reasonable rate of return
IV. To design the entire capital structure - to keep debt and capital value in balance.

The financial management department is responsible for estimating the company's capital requirements. This is determined by the anticipated expenses and profit, as well as future initiatives and policies. The capital estimate process should be carried out in such a way that the company's earning capacity is increased. Following the evaluation, the short-term and long-term capital structures, as well as borrowings and capital value, should be identified. Then comes the selection of asset sources, which might include stocks and bonds, bank loans, financial institution loans, and public deposits in the form of bonds. Financial management entails making decisions for the deployment of assets in lucrative ventures and securing investments with a consistent return on investment. Financial management also involves cash management decisions, salary payment, power expenses, loan repayment, inventory maintenance, and raw material acquisition. The final financial management function is financial control, which may be accomplished by a variety of approaches such as relationship analysis, Financial forecasting, as well as cost and profit management

DEFINITION OF FINANCIAL PLANNING

The process of calculating the amount of capital required to carry out an organization's commercial activities is known as financial planning. This is the procedure of developing financial policies for the provision of assets, investments, and the administration of an organization's money. Financial planning is the act of creating goals, regulations, processes, strategies, and budgets for an organization's financial operations. Financial planning entails the following:[4]

I. supplying sufficient finances,
II. ensuring a suitable balance of incoming and departing monies,
III. Preparation of growth and developing initiatives to secure the organization's long-term viability,
IV. Reduced ambiguity about market changes that the company may encounter, as well as concern about how the business's growth would be affected,
V. assisting in the provision of stability and profitability

Financial planning includes anticipating, guiding, coordinating, and arranging the distribution of parts of an organization's financial function. The term financial planning mostly relates to the planning of cash flows and the financial structure of a company. Financial planning entails the monetary stated overall activity of the company, the quantity and structure of money, the sources of funding, and financial flows for a specific time period.

In reality, financial planning is the concretization of financial policy through financial plans, with the goal of putting value expression in time and place. The budget is expressed as follows:[5]

I. Organizing the sources and movements of financial resources.
II. Financial planning is carried out by the organization.

In reality, financial planning is the concretization of the company's financial policy. The goal of fiscal policy, as a finance function policy, is to equip the organization with financial power, which is described as the company's permanent capacity to:[6]

I. payment
II. funding
III. Investing. Increasing the value of an organization's property
IV. satisfying the needs of management, employees, suppliers, and shareholders

Financial planning entails defining financial objectives, developing financial plans, and putting them into action through financial activities such as purchasing necessary assets, loans, insurance, investments, and real estate, as well as preparing financial statements, evaluating results, and monitoring plan implementation.
Financial planning is the process of forecasting and estimating sales, revenue, and assets in order to implement the organization's planned operations, actualize strategy, and identify the resources required to achieve the intended goals. The following are the components of financial planning:[7]

I. Finance action that is well-planned in accordance with the organization's objectives.
II. Forecasting the influx and outflow of cash resulting from an organization's operations Perceiving multiple options in terms of the most efficient use and provision of cash for payments.

FINANCIAL PLANNING PROCESS

Financial planning is a six-step process that follows a logical order:[8]

I. Getting a sense of your present financial condition.
II. Creating financial objectives.
III. Identifying different options for action.
IV. Alternatives are being investigated.
V. Creating and putting into effect a financial action plan.
VI. The proposal will be re-evaluated and revised.

Getting a sense of your present financial condition- means Calculation of revenues, expenses, liabilities, loans, and receivables.

Creating financial objectives- First, an analysis should be conducted, and the necessities for attaining what is desired should be identified; next, objectives should be set, and how current income will be spent in order to create money for future financial stability should be determined.

Identifying different options for action- identifying the elements that will influence the continuation of activities, the extension of the existing situation, new courses of action, decision-making inventiveness, and the consideration of alternative options that can lead to more successful decisions.

Alternatives are being investigated- takes into account the environment in which the company operations will be carried out, the organization's principles, and present economic conditions It must be determined where the assets will be invested, what sort of production expenses will be incurred, as well as the risks and the information that will be utilized to make informed decisions.

Creating and putting into effect a financial action plan- to devise a strategy for achieving financial objectives all workers must carry out the financial action plan, which includes providing assets, investing, maintaining inventories, and providing shares, bonds, or mutual funds.

The proposal will be re-evaluated and revised- watching the plan's implementation in real-time, evaluating financial decisions, and reacting to new personal, societal, and economic aspects. The evaluation of the financial plan's execution allows the company to make priority modifications that will help it meet its financial objectives.

FINANCIAL PLAN

The financial strategy assists managers in meeting the objectives of the company. The financial plan provides answers to the following questions:[9]

I. How much money does the organization require, either short-term or long-term?
II. Where will those monies come from, i.e. what are the sources of funding (own equity or borrowed equity)? (shares, bonds, securities, etc.)
III. How will the cash be spent by the organization?

The financial plan comprises a variety of financial statistics, statements, evaluations, and predictions about the organization's present financial situation and where it hopes to go in the future. This information assists in determining how much funding the organization requires to run the business, where that funding will come from (borrowing or investing), and how to spend the cash supplied rationally. The financial plan represents the organization's financial sustainability by assessing three perspectives: solvency, profitability, and liquidity. Solvency evaluates changes in net worth, profitability evaluates profits, and liquidity evaluates cash flows and loan repayment options. Three important components should be included in the financial plan:[10]

I. Income and expenditure statements
II. Statement of financial position.
III. Cash flow statement

The organization's income and costs are totaled in the income statement. Revenue represents the proceeds from the sale of goods or services, as well as other kinds of income. Expenses include manufacturing expenses, wages, donations, and interest. The income and expense statement displays the company's profit or loss for the fiscal year. The revenue and expense statement contains the following items:

I. Income - expected income increase and how it will be accomplished.
II. Expenses are operational expenditures such as supplier costs, interest, wages, loan repayments, donations, and taxes.
III. Production costs - the expenses of making and selling things.
IV. Sales minus all sales-related costs equal gross profit.
V. The profit left over after subtracting operational costs from gross profit is referred to as operating profit.
VI. Entire income less total costs equal net profit.
VII. Profit before taxes - the amount of profit before contributions are deducted.
VIII. The difference between net income and net profit before taxes is the difference in net profit after tax.

The final accounts show the organization's assets and liabilities. The word balance sheet comes from the fact that the organization's assets and liabilities must be in balance. The final accounts are vital to the company because it reveals its financial situation at a given point in time and what it owns. The final accounts depict the organization's corporate finances on a yearly basis. It contains the following items:

I. Cash, inventories, bank accounts, and fixed assets are all examples of current assets. Equipment, buildings, land, and other immovable assets are examples of fixed assets.
II. Short-term liabilities include payments for wages and fees, withdrawals from bank accounts, and tax and contribution payments. Long-term obligations, such as payments on loans and bonds due at the end of the year.
III. Investments and retained net value of earnings for future investments are referred to as capital.

The cash flow statement depicts how much money is projected to be produced and spent in the firm over a certain time period. The cash flow prediction predicts how much money will be generated from projected sales, how many loans will be acquired, and how much money will be generated from other sources, as well as how much money will be spent and paid. The following are the items on the cash flow statement:

I. Cash inflow is the amount of money that is projected to enter the firm based on estimated sales and revenues on bank accounts and other factors.
II. Total cash expenses are expected to be outflow.

The following are the components of a financial plan as a document:[11]

I. Returning to work.
II. Presumptions of the most basic kind
III. Indicators that are important to the financial world.
IV. Graph of profit.
V. Accounts payable.
VI. Profit/loss forecasts are displayed.
VII. Graphs of cash flow forecasts.

The résumé summarizes the most essential aspects of the financial plan's other sections, such as collecting cash and key financial indicators from the other sections.

Some fundamental financial presumptions are formed based on a study of payment capability in the section for basic financial presumptions. The following assumptions will be made:

I. Interest rates fluctuate.
II. When will the payment be made once it has been postponed?
III. Is there a time limit on when payments must be made?
IV. What is the tax rate?
V. How much will it cost?
VI. What is the percentage of credit sales?

General costs, such as salaries, rent, and operating costs, total costs per year, gross margin as the difference between sales income and total sales costs (direct costs), net profit calculated after deducting all expenses, and taxes from total sales income are all key financial indicators included in the financial plan.

The profitability graph shows how much money is needed to pay all of the business's costs, as well as how many goods or hours of service are required. The break-even point is the moment at which the company begins to make money.

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The profit or loss projection includes an explanation of the assumption as well as a tabular representation of profit or loss that includes costs

Cash flow analysis shows how much money is available at any one time for business operations, raw supplies, employee wages, loan repayments, and supporting business expansion. The cash flow is the movement of money within and outside of a business, i.e. the cycle of cash inflows and outflows, which affects the solvency, or capacity to pay.

CONCLUSION

Financial management entails the planning, arranging, directing, and regulating financial operations such as asset acquisition and use. Financial management is concerned with the acquisition, allocation, and control of financial resources. Financial management has the responsibility of estimating the capital requirements of the company. Financial planning refers to the process of developing goals, rules, processes, plans, and a budget for an organization's financial department. In reality, financial planning is the concretization of financial policy through financial plans with the goal of expressing value in time and place.

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