EPRA International Journal of Environmental Economics, Commerce and Educational Management
Journal DOI: 10.36713/epra0414 |ISI I.F Value: 0.815|SJIF Impact Factor (2021): 7.743 ISSN: 2348 – 814X
Volume: 8 | Issue: 3 | March 2021

OVERVIEW ON FINANCIAL MANAGEMENT AND BUDGETARY TECHNIQUES

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ABSTRACT

Budget formulation and financial management are most important areas in any enterprise irrespective of size. The appropriate and effective budgetary allocation may consider as one of the important aspect which can make success in organizational activities. The importance of financial management and its contribution in growth of an organization has been examined in this article. The influencing factor with regard to profit maximization has been examined and elaborated. As a measure of profit maximization, replacement of old equipments and modernization of enterprise has been studied. Budget characteristics such as, coordination of functions with the vision to company growth, target achievement and to utilization of all available resources have been examined. The classification of budget categories has also been examined. A glimpse on cash budget, ZBB and performance budgeting has been quoted.

KEYWORDS -*Inflation, Financial Management (FM), 'life blood of business', equity, capital cost, functional budget, fixed budget, capital & revenue budget, short & long-range budget, cash budget, Zero Base Budgeting (ZBB).*

INTRODUCTION

Financial management is one of the most important areas which deal with all facets of public, private business operations and individual needs. Finance is most important factor for all human and business requirements and it is as much as important as Human Resource Management. In the simplest terms, the finance can be seen as money resources available with individual or a company to perform business. Currency printing does not mean adequacy of finance but it actually ensure to maintain inflation. Money cannot be collected in the way any individual wishes to do it and that is why it requires proper management of finance irrespective of a person as individual or a company as business financial management. Personal, business and government are some financial layout wherein personal financial management related with management of personal finance by an individual; business oriented financial management deals with the techniques adopted by business companies/firms for management of finance; and public finance management related with management of finance by the government.

SIGNIFICANCE OF FINANCE MANAGEMENT

Financial management is extremely important concept in business management as proper planning of financial decision, properly execution of these decisions and above all control in expenditure are some of basic functions in financial management. The basic function of financial management is to manage the flow of finance in such a way where organization can meet its obligations. Human Resource Management (HRM) is dealing with policy formulation i.e. manpower planning, promotion, appraisal, motivation and to achieve best result within limited resources. Similarly, Financial Management (FM) is a kind of finance planning which deals with asset management, employee salary & compensation, building capitalization and enhancement of company, production and marketing expenses etc. The important function of FM is to increase the asset of the organization. Financial decision is important to shape out the future of the organization because higher risk may give higher return or sometime not. In order to deal with the situation the companies hiring the services of Finance Expert or Manager who may assess the financial situation of the company and then invest or take financial decision of the company. HRM is the '*heart and soul*' of any organization and similarly, finance is known as '*life blood of business*'. Financial decisions are generally taken by the top level executive or owner of the company. Guthman & Dougal defined financial management as "the activity concerned with the planning, raising, controlling and administering of funds used in the business."[1]

FM is known as one of the most important activities in a business firm because without financial investment no company can perform better. Even, the manpower of a company is required to pay their salary and allowances so that employees can work and perform for the organization. Moreover, FM is somewhere related with business credit rating and depending upon the fund growth of the company, its reputation also goes up which is known as brand or market value of the company. Appropriate investment of funds, growth in equity, and wise investment of company money are some of the important factors which are required to manage and maintain regularly.

OBJECTIVES OF FINANCE MANAGEMENT

Financial management and its objectives can be summarized as; to increase the profit of the company, to reduce in capital cost and to manage debt equality ratio. Maximization of profit is one of the important FM objectives. Revenue can be maximized by way of introduction of various long-run and short-run strategies. The price of the product can be enhanced viz-a-viz improving the quality of the product, rise in demand of goods, modernization and diversification, replacement of equipment and profit is protective shield against odds threatening survival of the business. Wealth maximization is also an important objective which is related with maximization of business network e.g. market valuation of equity. Liquidity and solvency maximization are some other important objectives of FM. With the passage of time, efforts may be spared where risk factors of the business finance are minimized so that reputation of the company may grow. Business cost of capital may also be required to be minimized so that the company may explore its wings in production of variety of goods.

PROCESS OF BUDGET & TECHNIQUES

Budget is key determinant in the policy formulation of any organization big or small. Budget is known as financial statement of particular company which is prepared before commencement of the financial year containing the policy to be pursued with allocation of budge. Thus, budget formulation is one of the most important areas in the financial management which deals with allocation of finance for completion of desired activities in the given period. As the appropriate budget allocation is necessary for successful completion of the project or policy, therefore, budgeting is known as forward planning. The main characteristics of the budgeting can be described as:

(a) To emphasis on profit maximization with future forecasting of the organizational goals;
(b) To foster coordination among various departmental functions of an organization which mark the merit of the future growth;
(c) To plan for the appropriate action laying emphasis on target achievement;
(d) To act as an instrument of expenditure control;
(e) To ensure utilization of all available resources with best possible manner with the thrust to concentrate on profit.

Finance is the key factor and indubitably required for establishment of an enterprise and subsequently running the activities of that enterprise. In order to lay down the proper planning of an enterprise, budget formulation is one of the most important areas and success of the organization somehow depends upon this foremost decision. Budget can be classified in various categories; such as (i) '*Functional Budget*' known as forecasting individual activities, coordination with other activities and overall effect. The targets approved for the individual functions are recognized as functional budget. The representation of profit, loss statement and balance sheet of the organization is known as '*Master Budget*'. (ii) '*Fixed Budget*' is nothing but to fix the targets of the organization well in advance in pursuance of targeted volume of activity. On the other hand, different volume of activities is fixed as target or revenues and costs, it is known as '*Flexible Budget*'. (iii) Expansion of existing facility by addition of new capacity and subsequently creation of entirely new activity is known as '*Capital Budget*' whereas '*Revenue Budget*' deals with target formulation for basic and routine functions such as, sales, production and finance. (iv) '*Short and Long-range Budget*' in general known as production plan and form of physical quantities respectively. Budget plans which are prepared for a period of one year or less and known as Short-range budget whereas the budget plan prepared for 5 to 10 years of an enterprise is known as Long-range budget. Budget is known as "an estimation of revenue and expenses over a specified future period of time and is usually complied and re-evaluated on a periodic basis. Budget can be made for a person, a group of people, a business, a government, or just about anything else that makes and spends money."[2]

CASH BUDGET

Cash Budget is nothing but a comparative estimate of the cash inflow or outflow which may be for a particular period i.e. for a year, for a half year or even for a month or week. It is the indicator for cash receipt, cash payment made during the particular period and subsequently the current cash position i.e. surplus or deficiency. Cash budget is important for small enterprise because it operates in cash with thin margin. However, it is equally great important for big enterprises. Receipt & payment, adjusted profit & loss and balance sheet methods are three basic mechanisms for cash budget formulation. Cash Budget "is an estimation of the cash flows of a business over a specific period of time. This could be for a weekly, monthly, quarterly, or annual budget. This budget is used to assess whether the entity has sufficient cash to continue operating over the given time frame. The budget provides a company insight into its cash needs (and any surplus) and helps to determine an efficient allocation of cash."[3]

ZERO BASE BUDGETING

Zero Base Budgeting (ZBB) is known as control the finance, budget and expenses effectively. ZBB is the term used first in 1962 by Agriculture Department in U.S. Formulation of budget by review of programme, examine the project plan in terms of its functions is known as ZBB. The justification of activity is required and only duly reasonable justification and result of the activity will consider for allocation of budget. In short, it can be said that ZBB is nothing but full reasonable justification is required for each and every activity irrespective of existing or new plan. ZBB is "a method of budgeting whereby all the expenses for the new period are calculated on the basis of actual expenses that are to be incurred and not on the differential basis which involves just changing the expenses incurred taking into account change in operational activity. Under this method, every activity needs to be justified, explaining the revenue that every cost will generate for the company."[4]

PERFORMANCE BUDGETING

It is known as correcting the gray areas in traditional budget by focusing on management activities. In performance budgeting, it is expected that a specific part of budget may be spent on actual the output. Therefore, this type of budgeting is commonly known as input and output of budget allocation vis-à-vis and activities. The main objective of performance budgeting is improve the formulation of budget and subsequently reviewing the decisions taken at all level so that an estimate may be drawn about the expenses and its result in terms of achievement. Performance Budget "reflects both the input of resources and the output of services for each unit of an organization. The goal is to identify the score relative performance based on goal attainment for specified outcomes. This type of budget is commonly used by government bodies and agencies to show the link between taxpayer funds and the outcome of services provided by federal, state, or local governments."[5]

CONCLUSION

It has been observed that financial management is one of the most important areas in business management. It may not be wrong to say that financial management is not only useful in the enterprises but it has equal value even in the lives of common masses. The main purpose of finance management is to allocate budget or invest money in such a way that company or individual may get maximum profit. In order to achieve the targets, it is examined that old apparatus may be replaced with new technology. Financial planning is other important factor and efforts may be spared by enterprises to plan financial activities by taking feedback from bottom level workers, middle management and then financial experts/manger. It is suggested that social audit investments and subsequently its output may be done at an appropriate interval so that necessary rectification, if any found may be incorporated in ensuing finance planning. Further, special attention may be paid on motivation of employees, as they are the key determinant and it is established fact that satisfied employees performed better.

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