ID 16576

Subject : Business finance and Financial mgt ~~16576~~

Question No # 1

Function of Financial Manager :-

Estimating the amount of Capital Required :-
This is the foremost function of the financial manager. Business firms require capital for:

(i) Purchase of fixed assets,
(ii) meeting working capital requirements, and
(iii) Modernisation and expansion of business.

The financial manger makes estimates of funds required for both short-term and long-term.

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2. Determining capital structure:-

once the requirement of capital funds has been determined, a decision regarding the kind and proportion of various sources of funds has to be taken. For this, financial manager has to determine the proper mix of equity and debt and short-term and long-term debt ratio. This is done to achieve minimum cost of capital and maximise shareholders wealth.

Choice of sources of funds:

Before the actual procurement of funds, the finance manager has to decide the sorcees from which the funds are to be raised. The management can raise finance from various sources like equity shareholders,

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debenture-holders, banks and other financial institutions, Public deposits, etc.

4. Procurement of funds:

The financial manager takes steps to procure the funds required for the business. It might require negetiation with creditors and financial institutions, issue of prospectus, etc. The procurement of funds is dependent not only upen cost of raising funds but also on other factor like general market conditions, choice of investors, government policy, etc.

5. Utilisation of funds:

The funds procured by the financial manager are to be prudently invested in various assets so as to maximise the return on investment: While taking investment decisions, management

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Should be guided by three important principles, viz., safety, profitability, and liquidity.

6. Disposal of Profits or surplus:

The financial manager has to decide how much to retain for ploughing back and how much to distribute as dividend to shareholders out of the profits of the company. The factors which influence these decision include the trend of the company the trend of the market price of its shares, the requirements of funds for self-financing the future programmes and so on.

7. Management of Cash:

Management of cash and other current assets is an important task of financial manager. It involves forecasting the cash inflows and

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outflows to ensure that there is neither shortage nor surplus of cash with the firm. sufficient funds must be available for purchase of materials, payment of wages and meeting day to day expenses.

8. Financial control:-

Evaluation of financial performance is also an important function of financial manager. The overall measure of evaluation is Return on investment (ROI). The othe techniques of financial control and evaluation include budgetary control, cost control, internal audit, break-even analysis and ratio analysis. The financial manager must lay emphasis on financial planning as well.

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Role of Financial manager:-

Financial mangers perform data analysis and advise senior mangers on profit maximizing ideas. Financial managers are responsible for the financial health of an organization. They produce financial reports, direct investment activities, and develop strategies and plans for the long-term financial goals of their organization.

The role of the financial manager, particularly in business, is changing in response to technological advances that have significantly reduced the amount of time it takes to produce financial reports. Financial manager main responsibility used to be monitoring a company's finance, but they now do

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more data analysis and advise senior managers on idea to maximize Profits. They often work on teams, acting as business advisors to top exectives.

Financial managers also do tasks that are specific to their organization or industry. For example, government financial managers must be experts on government appropriation and budgeting processes, and health care financial. moreever, financial manager must be aware of special tax laws and regulations that affect their industry.

Capital investment decisions :-

capital investment decision are long-term corporate finance decisions relating to fixed assets and capital structure. Decisions are based on several inter-related criteria. corporate management seeks to maximize the

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value of the firm by investing in projects which yield a postive net present value when valued using an appropriate discount rate in consideration of risk. capital investement decisions thus comprise an investment decision, a financing decision, and a dividend decisions. Management must allocate limited resources between competing opportunities in a process know as capital budgeting.

Question No # 2

Business organization :-

Business organization is the single most important choice you'll make regarding your company. what form your business adopts will affect a multitude of factors, many of which will decide your company future. Aligning your goals to your business organization

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type is an important step, so understanding the pros and cons of each type is crucial.

Your company's form will affect:-

How you are taxed

your legal liability

cost of information

operational costs.

1- Sole proprietorship:-

The simplest and most common form of business ownership, sole proprietorship is a business owned and run by someone for their own benefit. The business' existence is entirely dependent on the owner's decisions, so when the owner dies, so does the business.

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Advantages :-

1- All Profits are subject to the owner

2- There is very little regulation for proprietorship

3- Owners have total flexibility when running the business

4- Very few requirements for starting often only a business license

Disadvantages:

1- Owner is 100% liable for business debts

2- Equity is limited to the owner's personal resources

3- Ownership of proprietorship is difficult to transfer

4- No distinction between personal and business income

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3. Partnership

These come in two types: general and limited. In general partnership, both owners invest their money, property, labor, etc. to the business and are both 100% liable for business debt. In other words even if you are ~~still~~ invest a little into a general partnership, you are still potentially responsible for all its debt. General partnerships do not require a formal agreement- partnership can be verbal or even implied between the two business owners.

Advantages:-

1- Shared resources provides more capital for the business

2- Each partner shares the total profit of the company

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3- Similar flexibility and simple design of a proprietership

4- Inexpensive to establish a business partnership formal or informal

Disadvantages:

1- Each partner is 100% responsible for debts and losses

2- selling the business is difficult - requires finding new partner

3- Partnership ends when any partner decides to end it

3- Corporation :-

corporation are, for tax purposes, separate entities and are considered a legal person. This means, among other things, that the profits generated by a corporation are

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taxed again as the personal income of the owners.

Advantages:

1- Limited liability of the owner to debts or losses Profits and losses belong to the corporation
2- Can be transferred to new owners fairly easily
3- Personal assets cannot be seized to pay for business debts

Disadvantages:-

1- corporate operation are costly
2- Establishing a corporate is costly
3- Start a corporate business requires complex paperwork
4- with some exception, corporate income is taxed twice

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4 Limited Liability company

similar to limited partnership, an LLC provides owners with limited liability while providing some of the income advantages of a partnership. Essentially, the advantages of partnerships and corporations are combined in an LLC, mitigating some of the disadvantages of each.

Advantages:-

1- Limits liability to the company owners for debts or losses
2- The Profits of the LLC are shared by the owners without double-taxation

Disadvantages:-

1- Ownership is limited by certain state laws
2- Agreements must be comprehensive and complex
3- Beginning an LLC has high costs due to legal and filing fees

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Question No # 3

Time value of money :-

Time value of money is the idea that money that is available at the present time is worth more than the same amount in the future. due to its potential earning capacity. This core principle of finance holds that provided money can earn interest, any amount of money is worth more the sooner it is received. one of the most fundamental concepts in finance is that money has a time value attached to it. In simpler terms, it would be safe to say that a dollar was worth more yesterday than today and a dollar today is worth more than a dollar, tomorrow.

Future money = Present money + (Y)

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This chapter is pafticol approach to the time value of money. We fully understand that today's technology provides multiple caculators and applicatory to help you derive both present value and future value of money. If you do not take the time to compreend how these calculations are derived, you may make critical financial decisions using inaccurate data (because you may not be able to recognize whether the answer are correct or incorrect. There are five variables that you need to know:

1- Present value

This is your current starting amount. It is the money you have in your hand at the present time, your initial investment for your future

2- Future value:-

This is your ending amount at a point in time in the future. It should be worth more than the present value, provided its is earning interest and growing over time.

3 The number of Periods :

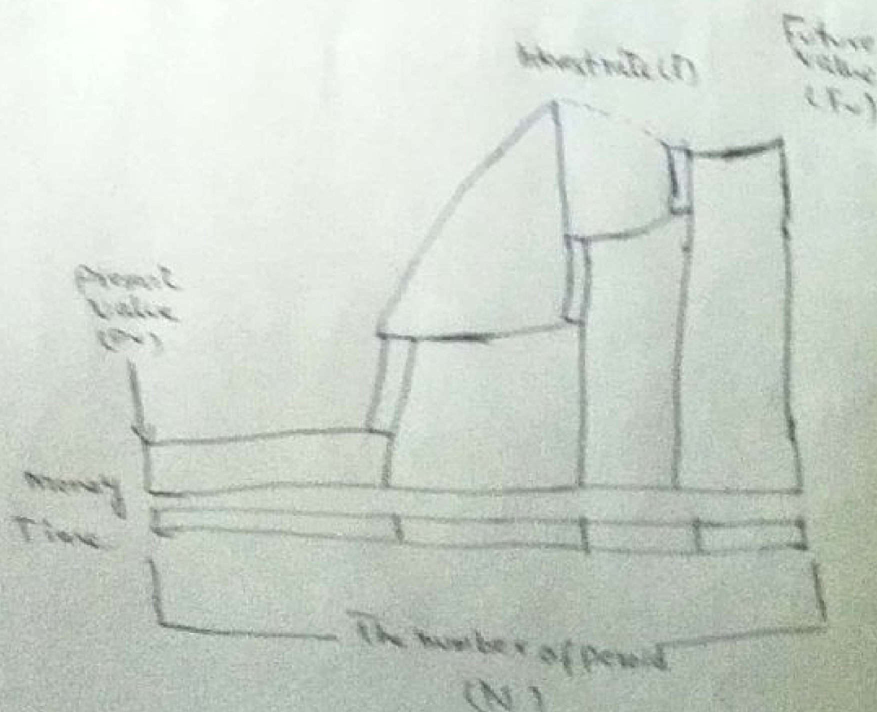
This is the timeline for your investment (or debts) it is usually measured in years, but it could be any scale of time such as quarterly, monthly, or even daily.

4 Interest rate :-

This is the growth rate of your money over the lifetime of the investment. it is stated in a percentage value, such as 8%. or .08.

5 Payment amount :-

These are series of equal, evenly-spaced cash flows.



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Question No # 4

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Financial statement Analysis :-

There are some useful techniques involving simple math which can help you perform a financial statement anaysis for business. you'll need the three main financial statements for reference - the balance sheet, income statement and statement of cash flows.

Each of the following methods gives visibility into trends that your business may have. The information you receive can allow you to make changes to steer your company towards more profitability and efficiency.

1 : Ratio :-

There are many different types of ratios developed when conducting a financial analysis. Efficiency ratios let you see how well your business uses its assets.

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common efficiency ratio are:

- inventory turnover- how often your inventory turns over in a year
- Accounts receivable turnover- how often your accounts receivable are collected and paid
- Accounts payable turnover- measures how fast you pay off your creditors.
- Asset turnover- exhibits your asset utilization is generating revenue.

Liquidity Ratio:-

Liquidity ratios are ratios that indicate whether a company can pay off its short term debts by converting current assets into cash.

The most common liquidity ratio are:

- current ratio- describes the ability to pay off current liabilities.
- Quick ratio - subtracts inventory from

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Current assets to express a more strict indicator of the ability to pay current liabilities

Current ratio – the percentage of cash you have for short term debts

Solvency ratio:-

Demonstrate the ability of a business to pay its long term obligations.

Common solvency ratios are:

- Debt to equity – the amount of equity that can cover debts
- Debt to asset – indicates assets that are funded by debt

Profitability ratio are measurements of whether a company is turning a profit and how much is being generated. The most used ratios are:

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- Return on assets - describes the return that assets are creating for a company
- Return on equity - one of the most used for shareholders and investors, it indicates whether assets are being used to create profil

2- Horizontal Analyses

Horizontal analysis is conducting by comparing multiple periods worth of financial information. using financial ratios, a company can compare current years performance to previous years performance.
This type of analysis is usually performed on income statement and balance sheets.
This analyses provides owners with data on changes. For example, if you were to look at your debt to equity ratio (from your balance sheet) from this year and compare it to the last year, you may see a positive or negative change.

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You may not see any change. If your debt to equity is the same as the period previous, you will not see a change. However, if your debt had gone up without an increase in equity you would see your debt to equity ratio go down. This could indicate a problem, or not, depending on the decisions you had made throughout the year.

3- Vertical Analysis:-

vertical analysis is much more simple than a horizontal analysis. It deals with a one year period, revealing the outcomes of the income statement and balancesheet as percentages of sales and assets, respectively.

An income statement vertical analysis is used in the same manner as the income statement. It can be used to show the percent any of the line items are of your

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total assets. The catogeries on the balance sheet are assets, Liabilities, and equity.

For instance, If you had total assets of 2,000,000 and $ 200,000 in cash, your cash is 10% of your total assets. Likewise, If your current liabilities are 25% of your total assets.

As become more familiar with the ratios and financial statements, you'll be able to make more sense of the information horizontal and vertical analysis provide.

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