Vitalie Zegera – Finance Management

Assignement 1 - January 12, 2020

1. **What are the main principles of Management?**

The principles of management are the methods/activities through which managers are getting things done for the organization. They have been categorized into the four major functions of planning, organizing, leading, and controlling popularly known as the P-O-L-C framework. These four functions are actually highly integrated when carried out in the day-to-day realities of running an organization. These critical managerial functions provide guidance into what the ideal job of a manager should look like.

1. *Planning* – is the function of management that includes setting goals/objectives and developing appropriate steps for achieving those goals/objectives. Strategic planning (long-term planning) is most difficult, but unavoidable for a strong organization.
2. *Organizing* - is the function of management that produces a needed structure for the organization and finds the best people to fit into it. Through structure the management can best coordinate the work. Organizing happens at the level of the entire organization (departments, sections) and at the level of a particular job – both involves how best to assign group responsibilities and also design individual jobs to most effectively use human resources. Recently, many organizations try to put more attention to workers autonomy, creativity and satisfaction. Many jobs are now designed based on such principles as empowerment, job enrichment and teamwork.
3. *Leading* – is the function that inspire people to do their job. I like the biblical principle of Servant-Leader: leading by serving. In order to achieve this a manager needs to understand the worldview, values and culture of the co-workers, respect and nurture it.
4. *Controlling* - involves ensuring that performance does not deviate from standards and policies.

As good as these managerial functions may be, they often remain as a nice job description filed in the personal file, because life is more complicated, fragmented, hectic and the manager is constantly trying to survive and do what is urgent versus important. Nevertheless, having learned the 4 functions and time to time reflecting on work done and on own achievements the manager is better prepared to proper evaluate and plan better for the future.

a) Explain what is meant by Coordination

Coordination is very important for the success of an organization, because it is the force that binds all the other functions of management. It helps to keep efforts synchronized and integrated towards a common goal. Therefore, coordination is not a separate function of management, but the essential ingredient of every function. The need for coordination arises because individuals and departments have different goals. They depend on each other for resources and information. Managers continuously coordinate their activities to ensure that all individuals and departments use organizational resources and information for successful attainment of organizational goals.

Coordination aims to integrate individual goals with organizational goals so that both are satisfied. Satisfied employees work towards organizational goals with commitment, dedication and loyalty than unsatisfied employees.

1. *Coordination while Planning:*

When plans are made, managers ensure that different types of plans (long-term and short-term, strategic and routine), policies, rules and procedures operate in harmony and coordination with each other so that various departments effectively follow these plans.

2. *Coordination while Organizing:*

Division of work into departments on the basis of similarity of activities, appointing people to manage these departments, defining their authority and responsibility and creating the organization structure aim to coordinate departmental activities with the organizational goals. If the activities are divided randomly without coordination, some activities may not be assigned to people and some may be assigned to more than one person. Managers ensure that people are placed on different jobs according to their skills and capabilities. This ensures placing the right person at the right job in order to achieve coordination amongst their work activities.

3. *Coordination while Leading:*

When a manager leads through motivation, leadership and communication, he attempts to coordinate the organizational activities. It is also an attempt to harmonies individual goals with organizational goals. Direction maintains unity and integrity amongst activities of members in the organization. Coordination gives meaning and purpose to every task and promotes group effort for goal accomplishment.

4. *Coordination while Controlling:*

Controlling ensures that actual performance is in conformity with planned performance. The purpose of controlling through budgets or information systems is to coordinate the various organizational activities to contribute towards organizational goals.

Sometimes, coordinated efforts have to focus more on planning while at other times, focus has to be more on controlling. Regardless of the degree of focus, the essence of coordination highlights its need.

2. **Why is Financial Management core to any business undertaking? Explain Five reasons.**

The Finance Manager is responsible for the efficient and effective financial management of the Organization and for the development and maintenance of the necessary systems to safeguard the assets and financial operations of the Organization. Importance of Financial Management cannot be over-emphasized. It is, indeed, the key to successful business operations. Without proper administration of finance, no organization can reach its full potentials for growth and success. Money is to an enterprise, what oil is to an engine. The organizational goals can be achieved only with the help of effective management of finance.

Financial management is all about planning activities, funding activities, monitoring expenses against budget and managing gains from these activities.

The best way to demonstrate the importance of good financial management is to describe some of the tasks that it involves: -

1. *Financial Planning and Decision Making*

   Financial management refers to the strategic planning, organizing, leading, and controlling of financial undertakings in an organization. It helps in promoting and mobilizing organizational savings, planning and finding new sources of funding.
2. *Formulation and carrying out the financial policies*

   Development and maintenance of needed systems/policies to safeguard the assets and finances of the organization.
3. *Prepare budgets*

   Provide accurate figures for short-term/long-term financial planning and ensure that the funds are available as and when required.
4. *Proper use of funds*

   Provide proper allocation, controlling of income and expenses according to the approved budgets
5. *Keeping effective accounting systems* (effective control records)

   Reduce misuse of funds and increase credibility.

The risks in life are many, and one of important risks that can be controlled is the financial well-being of the organization. Lack of financial management could lead to serious situation in the life of an organization. Financial management helps not only to manage finances but also helps to make well informed decisions for using the money of the organization. It helps to avoid pitfalls and still create income by using/investing money wisely in a wide variety of actions according to the needs and various goals of the organization.

3. **Define Budgeting. Give five functions of a budget.**

A budget is a document approved by the board, which states the estimated income and expenses based on future plans and objectives of the organization for a specific period of time, usually for one year. Budget can also be called the plan to spend the money (financial plan). The plan should take in consideration all income and expenses. It should be balanced.

Functions of a budget:

1. Help in financial planning (forecasting). The plan of the organization expressed in numbers, distributing the finance according to the priorities of the organization.
2. Monitoring and controlling tool (accountability and efficiency, performance evaluation)
3. Source of information for Management and other stakeholders (coordination and communication of the financial situation, operational control, making necessary changes if needed)
4. Supports the improvement of organizational plans by regular reviewing and evaluating the budget.

4. **Discuss the importance of cash management (cash flow forecasts)**

The objectives of cash management are straightforward – maximise liquidity and control cash flows and maximise the value of funds while minimising the cost of funds. This includes financing the activities of the organization, administration of debts (loans, bonds, etc.), good relationships with the banks and donors, payments to suppliers and collections from customers, control of foreign currency and finally the reporting and technical support of all these functions.

Cash management is the lifeblood of organization, especially of small ones. Cash is what allows an organization to survive. Without adequate money income the organization won't be able to cover the monthly expenses or even consider expanding. But good cash flow management isn't just about having a constant stream of money coming in. It also enables to forecast the future.

The benefits of a sound cash management:

- *Cash always available* - managing the cash flow well, will let the management to predict how much money will come in and ensure that it's always more than the need to spend.
- *Pay the dues on time* – there will be money for staff. Happy staff make prosperous business. There will be money for all other obligations.
- *Financial security* – there is nothing more stressful than running out of money.

- *Avoids overspending* – avoids using cash out of reserves, gives control over cash.
- *Supports the development of the organization* – by setting a part money for development.

Effectively managing the cash flow is the key to the success of organization. By implementing a good cash flow management strategy will allow the management to be able to address any shortfalls immediately, set up the goals for future growth and have peace of mind that all bills will be paid on time.

5. **What are the contents of Balance Sheet?**
   Differentiate between a Balance sheet and Trial Balance.

The Balance Sheet shows the financial condition, a snapshot, of the organization at a specific date. It presents information on the assets (resources), liability (obligations) and reports the 'balance' (assets less liabilities). Balance sheets are also sometimes referred to as statements of financial position or statements of financial condition of the organization.

Balance sheets are typically presented in two different forms. In the report form, asset accounts are listed first, with the liability and owners' equity accounts listed in sequential order directly below the assets. In the account form, the balance sheet is organized in a horizontal manner, with the asset accounts listed on the left side and the liabilities and owners' equity accounts listed on the right side. The term "balance sheet" originates from this latter form: when the left and right sides have been completed, they should sum to the same dollar amounts—in other words, they should balance.

Contents of the balance sheet are usually organized in 3 categories: assets, liabilities and organization's equity. Some balance sheets also include a "notes" section that holds relevant information that does not fit under any of the above accounting categories.

a. *Assets* – items owned by the organization (cash, inventories, equipment, deposits). Assets are further categorized into the following classifications: current assets, fixed assets, and miscellaneous or other assets. *Current assets* include cash, notes receivable, accounts receivable, inventories, prepaid expenses, and any other item that could be converted to cash in the normal course of business within one year. Current assets should reasonably balance current liabilities.

Current assets divided by current liabilities produce one of the "health indicators" of a company, the "Current Ratio." If that ratio is unfavorable, the company may lack liquidity—meaning the necessary resources to meet its cash obligations. We speak about “Working Capital” when Current Liabilities are deducted from Current Assets.

Fixed assets include real estate, physical plant, equipment (from office equipment to heavy operating machinery), vehicles, and other assets that can reasonably be assumed to have a life expectancy of several years. In practice most fixed assets—excluding land—will lose value over time in a process called depreciation. Fixed assets are reported *net of depreciation* in an attempt to claim only their current value. Fixed assets, of course, should be in some reasonable balance with long-term liabilities.

b. *Liabilities* – the obligations of the organization to other entities as a result of past transactions. These entities range from employees (who have provided work in exchange for salary) to investors (who have provided loans in exchange for the value of that loan plus interest) to other companies (who have supplied goods or services in exchange for agreed-upon compensation). Liabilities are typically divided into two categories: short-term or current liabilities and long-term liabilities. *Current Liabilities* are due to be paid within a year. These include payments to vendors, payable taxes, notes due, and accrued expenses (wages, salaries, withholding taxes). Current liabilities also include the "current" portion of long-term debt payable during the coming year. *Long-term liabilities* are debts to lenders, mortgage holders, and other creditors payable over a longer span of time.

c. *Organization’s Equity* – the book value of the organization, the remainder after liabilities are deducted from assets.

Trial Balance

Trial balance is a list of all the general ledger accounts and their balances at a given time. The accounts are listed in the order in which they appear in the ledger, with the debit balances in the left column and credit balances on the right column. The purpose of the Trial Balance is to:

a. To prove the mathematical equality of the debits and credits after posting;

b. To uncover errors in journalizing and posting; and
c. As basis for the preparation of the financial statements.

Trial Balance vs. Balance Sheet

Trial Balance is mainly an internal document, Balance Sheet is first of all for external viewers.
Trial Balance checks the accuracy in the recording and posting, while balance sheet determines the financial situation on a specific date.
Balance Sheet is part of the financial statement, trial balance is not.

BIBLIOGRAPHY:

Africa center for project management. *Diploma in financial management*. Course Manual, Module 1, 2015.
Atrill, Peter. *Accounting and Finance for Nonspecialists*. Prentice Hall, 1997.
Bangs, David H., Jr., and Robert Gruber. *Finance: Mastering Your Small Business*. Upstart, 1996.
Mooney D. James., and Riley C. Alan. *The principles of organization*. New York, London, Harper & Brothers, 1939.
De Gidlow, R., and Donovan, S. *Cash Management Techniques*. In: The Treasurer's Handbook. ACT, London, 2005.
Paramasivan, C., and Subramanian T. *Financial Management*. New Age International Limited, Publishers. New Delhi, 2008.
Simini, Joseph Peter. *Balance Sheet Basics for Nonfinancial Managers*. Wiley, 1990.