Module 1 Assignment

* **30 June 2019**
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**Course: Diploma in Financial Management for NG’S.**

# 1-What are the main principles of Management?

The principles of management are the activities that “plan, organize, and control the operations of the basic elements of [people], materials, machines, methods, money and markets, providing direction and coordination, and giving leadership to human efforts, so as to achieve the sought objectives of the enterprise.” For this reason, principles of management are often discussed or learned using a framework called P-O-L-C, which stands for planning, organizing, leading, and controlling. The above main principles of management can be explain with their original defined as below:

1. Planning involves defining goals, establishing strategies for achieving those goals, and developing plans to integrate and coordinate activities.
2. Organizing involves arranging and structuring work to accomplish the organization’s goals.
3. Leading involves working with and through people to accomplish organizational goals.
4. Controlling involves monitoring, comparing, and correcting work performance. Since these four management functions are integrated into the activities of managers throughout the workday, they should be viewed as an ongoing process and they need not the done in the above sequence.
5. Explain what is meant by Coordination:

Is an orderly arrangement of group efforts to maintain harmony among individuals’ efforts towards the accomplishment of common goals of an organization, It is the force that integrates all functions of the management

## 2- Why is Financial Management core to any business undertaking? Explain five reasons.

Financial Management is an essential part of the economic and non -economic activities

Which leads to decide the efficient procurement and utilization of finance with profitable

Manner. In the olden days the subject Financial Management was a part of accountancy

With the traditional approaches. Now a days it has been enlarged with innovative and

Multi-dimensional functions in the field of business with the effect of industrialization,

Financial Management has become a vital part of the business concern and they are

Concentrating more in the field of Financial Management. Financial Management also

Developed as corporate finance, business finance, financial economics, financial mathematics

And financial engineering. Understanding the basic concept about the financial management

Becomes an essential part for the students of economics, commerce and management.

***The five reasons of financial management are here under explain!!***

**1. Financial Management and Economics**

Economic concepts like micro and macroeconomics are directly applied with the

Financial management approaches. Investment decisions, micro and macro

Environmental factors are closely associated with the functions of financial manager.

Financial management also uses the economic equations like money value discount

Factor, economic order quantity etc. Financial economics is one of the emerging

Area, which provides immense opportunities to finance, and economical areas.

**2. Financial Management and Accounting**

Accounting records includes the financial information of the business concern.

Hence, we can easily understand the relationship between the financial management

And accounting. In the olden periods, both financial management and accounting

Are treated as a same discipline and then it has been merged as Management

Accounting because this part is very much helpful to finance manager to take

Decisions. But nowadays financial management and accounting discipline are

Separate and interrelated.

**3. Financial Management or Mathematics**

Modern approaches of the financial management applied large number of

Mathematical and statistical tools and techniques. They are also called as

Econometrics. Economic order quantity, discount factor, time value of money,

Present value of money, cost of capital, capital structure theories, dividend theories,

Ratio analysis and working capital analysis are used as mathematical and statistical

Tools and techniques in the field of financial management.

**4. Financial Management and Production Management**

Production management is the operational part of the business concern, which

Helps to multiple the money into profit. Profit of the concern depends upon the

Production performance. Production performance needs finance, because

Production department requires raw material, machinery, wages, operating expenses

Etc. These expenditures are decided and estimated by the financial department

And the finance manager allocates the appropriate finance to production department.

The financial manager must be aware of the operational process and finance

Required for each process of production activities.

**5. Financial Management and Marketing**

Produced goods are sold in the market with innovative and modern approaches.

For this, the marketing department needs finance to meet their requirements

The financial manager or finance department is responsible to allocate the adequate

Finance to the marketing department. Hence, marketing and financial management

Are interrelated and depends on each other.

### 3- Define Budgeting. Give five functions of a budget.

Budget is an estimate or plan of expenditure in relation to Income, or periodic estimate of an organization’s revenue and expenditure. Most of the literature define a Budget as a quantitative expression of a proposed plan of action by management for a specified period, budget is a financial map or plan, written in terms of money or numbers. A budget is financial plan that quantifies future expectations and actions relative to acquiring and using resources, budgets don, t guarantee success, but they certainly help to avoided failure.

**Give five functions of a budget**.

1. Budgets can provide the basic of detailed sales targets.
2. Staffing plans.
3. Inventory production.
4. Cash investment/borrowing.
5. Capital expenditures (for plan assets)

**The Purpose and importance of budgeting:**

* Develops realistic financial plans that should facilitate allocation of resources according to Organization's activity Priorities
* Provides a control tool to ensure that spending is in line with time plans and budget amounts
* Provides periodic variance reports of actual and budget amounts to form a basis for investigation and necessary decision making
* Can be used to compare and monitor cumulative expenditure by account code to the original budget allocation

**Items to be included in the budgets *below***

Effectively supports the improvement of the annual comprehensive business plan and its periodic review

***Employees****.*

These are costs that can be directly attributed to employees of the company e.g. salaries, bonuses, medical costs etc.

***Premises.***

Fixture and Fittings. The maintenance and purchase of minor items of fixtures and fittings within the cost centers.

Repair and Maintenance. The expenses for Water, the operating and Electricity, upkeep of the Rent and rates, premises housing Cleaning materials, of the cost centre.

Insurance and Depreciation.

***Stationery Plant and Pipe Networks***

Fuel & lubricants; the cost of fuel, lubricants, and power required to run the stationery plant of the particular cost center

Repairs & Maintenance; to include all costs of repair & maintenance of the relevant plant, networks, including materials obtained from stores, costs of contactors, direct purchases of materials etc.

Hire of Transport; to include any transport hire costs Insurance and Depreciation;

***Transport and Mobile Plant***

Fuel and Lubricants, costs of Repairs and Maintenance operating own, Hire of transport, mobile plant; Insurance, licenses etc.

Vehicles, and hiring off Third parties

Depreciation relating to assets in this category

***Supplies and Services and Establishment Expenses***

To include all anticipated costs for each relevant sub-head. Chemical costs particularly should be carefully assessed by reference to anticipated requirements.

The travelling and subsistence code under this heading should include costs of travelling and subsistence which has to be specifically approved e.g. transport for travel, weekend working, lunch payments for lunchtime working etc.

***Financing Costs***

This refers to costs relating to various sources of finance used by the Organization mainly borrowing costs

***Income***

In most cases there should not be any separate income or individual cost centers, as the majority of the Organization income derives from water and sewerage charges which are not cost centre oriented, but related to the Organization as a whole. Details of water & sewerage charges income (separately) at current tariff levels need to be provided for each month and aggregated for the year on the following basis:-

a) Number of accounts and amounts billed for consumption charges split between water & Sewerage services, where applicable.

b) Anticipated other billings, such as fines, connection fees etc., itemized for each type of income.

***Capital Expenditure***

* A separate statement needs to be submitted giving details of any anticipated capital Expenditure. This statement should need to show the total cost of the capital project w.

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

Business concern needs cash to make payments for acquisition of resources and services

For the normal conduct of business. Cash is one of the important and key parts of the

Current assets.

Cash is the money which a business concern can disburse immediately without any

Restriction. The term cash includes coins, currency, cheques held by the business concern

And balance in its bank accounts. Management of cash consists of cash inflow and outflows,

Cash flow within the concern and cash balance held by the concern etc.

* **Motives for Holding Cash**
  + **Transaction motive**
* It is a motive for holding cash or near cash to meet routine cash requirements
* To finance transaction in the normal course of business. Cash is needed to make
* Purchases of raw materials, pay expenses, taxes, dividends etc.
  + **Precautionary motive**
* It is the motive for holding cash or near cash as a cushion to meet unexpected
* Contingencies. Cash is needed to meet the unexpected situation like, floods
* Strikes etc.
* 3. Speculative motive
* It is the motive for holding cash to quickly take advantage of opportunities
* Typically outside the normal course of business. Certain amount of cash is needed
* to meet an opportunity to purchase raw materials at a reduced price or make
* Purchase at favorable prices.
* 4. Compensating motive
* It is a motive for holding cash to compensate banks for providing certain services
* Or loans. Banks provide variety of services to the business concern, such as
* Clearance of cheque, transfer of funds etc.
* Cash Management Techniques
* Managing cash flow constitutes two important parts:

1. Speedy Cash Collections.
2. Slowing Disbursements.

* Speedy Cash Collections
* Business concern must concentrate in the field of Speedy Cash Collections from customers.
* For that, the concern prepares systematic plan and refined techniques. These techniques
* aim at, the customer who should be encouraged to pay as quickly as possible and the
* Payment from customer without delay. Speedy Cash Collection business concern applies
* some of the important techniques as follows:
* Prompt Payment by Customers
* Business concern should encourage the customer to pay promptly with the help of
* Offering discounts, special offer etc. It helps to reduce the delaying payment of customers
* And the firm can avoid delays from the customers. The firms may use some of the techniques
* For prompt payments like billing devices, self-address cover with stamp etc.
* Early Conversion of Payments into Cash
* Business concern should take careful action regarding the quick conversion of the
* Payment into cash. For this purpose, the firms may use some of the techniques like postal
* Float, processing float, bank float and deposit float.
* Concentration Banking
* It is a collection procedure in which payments are made to regionally dispersed collection
* Centers, and deposited in local banks for quick clearing. It is a system of decentralized
* Billing and multiple collection points.
* Lock Box System
* It is a collection procedure in which payers send their payment or cheques to a nearby
* Post box that is cleared by the firm’s bank. Several times that the bank deposit the cheque
* Working Capital Management
* In the firms account. Under the lock box system, business concerns hire a post office lock
* Box at important collection centers where the customers remit payments. The local banks
* Are authorized to open the box and pick up the remittances received from the customers.
* As a result, there is some extra savings in mailing time compared to concentration bank.
* Slowing Disbursement
* An effective cash management is not only in the part of speedy collection of its cash and
* receivables but also it should concentrate to slowing their disbursement of cash to the
* Customers or suppliers. Slowing disbursement of cash is not the meaning of delaying the
* Payment or avoiding the payment. Slowing disbursement of cash is possible with the help
* of the following methods:
* Avoiding the early payment of cash
* The firm should pay its payable only on the last day of the payment. If the firm
* avoids early payment of cash, the firm can retain the cash with it and that can
* Be used for other purpose.
* Centralized disbursement system
* Decentralized collection system will provide the speedy cash collections. Hence
* centralized disbursement of cash system takes time for collection from our accounts
* As well as we can pay on the date.
* Cash Management Models
* Cash management models analyses methods which provide certain framework as to how
* The cash management is conducted in the firm. Cash management models are the
* development of the theoretical concepts into analytical approaches with the mathematical
* Applications. There are three cash management models which are very popular in the field
* Of finance.
* Baumol model
* The basic objective of the Baumol model is to determine the minimum cost amount of cash
* Conversion and the lost opportunity cost.
* It is a model that provides for cost efficient transactional balances and assumes that the
* Demand for cash can be predicated with certainty and determines the optimal conversion size.
* Total conversion cost per period can be calculated with the help of the following formula:

T= Tb/C

Where:

T- Total transactions cash needs for the period

b- Cost per conversion

c- Value of Marketable securities.

* The following general policies regarding the Cash Managements must be observed.
  + Cash receipts must be complete. Each day's receipts must be promptly collected and deposited in the bank intact the next working day.
  + Cash receipt vouchers should be pre-numbered
  + An employee other than the cashier should be responsible for preparing cash count and agreeing them to cash book totals
  + Access to cash records must be closely monitored and access codes must be kept secure
  + An independent check of pre-numbered receipts should be performed regularly and should be reconciled to cash collections
  + Approval should be acquired for cash refunds
  + Cash receipts should be deposited intact in the bank. NO petty cash payment should be made out of the cash receipts.
  + Areas where physical handling of cash takes place should be reasonably safeguarded
  + It must be assured that each receivable transaction recorded is legitimate and has supporting documentation
  + Appropriate segregation of duties and access control procedures regarding who makes ledger transactions should be followed. The person who makes postings to the general ledger must be independent of the
* Cash receipts and accounts receivable functions
  + Proper safeguard measures should be adopted to restrict access to the account systems
  + All information included in the transaction must be verified as to amount, date, account coding and descriptions
  + Cash must be safeguarded while in the physical possession of the
  + Organization
* There must be appropriate personnel responsible for overseeing cash
  + Control processes
* Reconcile pre-numbered receipts to cash collections regularly. The accounts receivable bookkeeper should be restricted from: preparing the bank deposit, obtaining access to the cash receipt books/registers and
  + Having access to collections from customers
  + Instruct banks not to cash cheques drawn to the order of the Organization
  + Authenticated deposit slips should be retained and reconciled to the corresponding amounts in the cash receipt voucher records
  + Restrict cashiers from having access to the accounts receivable records and bank and customer statements
    - The bank deposit should be made by someone other than the cashier or
* The accounts receivable bookkeeper
* A person independent of the cash receipts and accounts receivable
  + Functions should compare entries to the cash receipts journal with: authenticated bank deposit slips and deposit per the bank statements
  + Copies of received cheques should be compared to the cash receipt vouchers journal for date, payee and amount
* Ensure that a person independent of the cashier or accounts receivable functions handles customer complaints.

**Cash flow forecasts**

Cash flow statement is a statement which shows the sources of cash inflow and uses of

Cash out-flow of the business concern during a particular period of time. It is the statement,

Which involves only short-term financial position of the business concern. Cash flow

Statement provides a summary of operating, investment and financing cash flows and

Reconciles them with changes in its cash and cash equivalents such as marketable securities.

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

The Balance Sheet shows the financial condition of the Organization at a specific date. It presents information on the assets, liability and the Organization equity of the agency.

**Statement of Income and Expenses**

The Statement of Income and Expenses shows the income and expenses of the Organization at the end of a particular period. It presents the detailed information of the income and expenses recognized during the period covered.

**Statement of Equity**

This simply gives the financial interest/stake of the shareholders in the organization.

**Statement of Cash Flows**

The Statement of Cash Flows shows the Organization's cash activities. It reports cash receipts and cash payments and net change in cash resulting from operating, investing and financing activities of an agency during a period, in a format that reconciles the beginning and ending cash balances.

**Notes to the Financial Statements**

The Notes to the Financial Statements amplify or explain the items presented in the main body of the financial statements. These are explanatory notes on the financial statements and/or accounting policies that should give additional information to the financial statements. In the Notes, the Organization should be expected to report the economic substance rather than the legal form of the transactions and to make adequate disclosure.

**The Notes to Financial Statements include the following:**

1. Summary of significant accounting policies adopted and followed by the Organization entity.
2. Narrative descriptions or detailed analyses of amounts shown on the face of the balance sheet, statement of income and expenses and statement of cash flows;
3. Customary or routine disclosure - which are information about measurement bases of important assets, restrictions on assets, contingent assets/liabilities, and important long term commitments not recognized in the body of the statements, etc.
4. Disclosures of changes in accounting principles- changes in accounting principles, practices or methods of applying them; and5) Disclosures of subsequent events - disclosure of events that affect the agency directly and that occur between the date of, or end of the period covered by, the financial statements and date of completion of the statements are necessary; if knowledge of the events might affect the interpretation of the statements, even though the events do not affect the propriety of the financial statements themselves.

***Differentiate between a Balance sheet and Trial Balance***.

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| --- | --- |
| Balance Sheet | Trial Balance |
| The Balance Sheet shows the financial condition of the Organization at a specific date. It presents information on the assets, liability and the Organization equity of the agency.  1) cash book(s)  2) Stores posting summaries  3) salaries and wages allocation analyses  4) journal and adjustment vouchers | 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.  1) All postings to the financial ledger must be completed, and each ledger folio totaled and balanced.  2) Enter the balance from every ledger folio on the Trial Balance form, and total the form  3) The debits should total the same as the credits and thus the Trial Balance agrees |

(John Gatwich Kuol Year 2019)