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**Course Name:** Post Graduate Diploma in Finance Management (PGD-FM)

**Assignment -2**

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**Assignments**

1. What are the main principles of Management?

Principles of management are crucial in administering an organization. Thus, these sets of principles help every department in the organization to function in a systematic and cordial fashion. In order to understand the meaning of principles of management, it is important to know the meaning of management. It is also important to be aware of the different functions of managing/management.

Management refers to the process of administering the business. Therefore, the adequate and appropriate management of an organization is important for the smooth functioning of its activities. Thus, the process of management includes many functions.

Moreover, management refers to the inter-dependent process/functions of:

• Planning and laying down pre-determined goals and objectives.

• Organizing the business activities to meet the pre-established goals.

• Directing and channelizing the efforts of all the business departments to meeting the business goals.

• Coordinating the various activities among the different departments of the firm.

• Controlling the business activities and making sure that they are not deviating from the right path.

Principles of Management – Function of Planning

The following are the most important principles of planning the business objectives for the organization.

1. The principle of continuity. Planning is a crucial activity for any business. Therefore, every business activity should be in accordance with the pre-determined planning of strategies and policies. It is also very important for a constant and continuous planning activity to avoid wastage of valuable time. In addition, if a company has met its objectives, the current plan ends there. And a new plan should be in place. Hence, planning should be continuous in nature.

2. The principle of implementation. Business planning is a very delicate yet mandatory activity. Thus, an implementable plan is crucial. A business should avoid drafting plans which are superficial and unrealistic. It is therefore suggested to plan in a realistic and rational manner to reap maximum benefits.

3. The principle of transparency. Every business should be transparent about its plans. Therefore, members of the organization like the employees, managers, stakeholders and other parties should be aware of the plans of the business. This principle ensures that the members of the organization have knowledge about the goals and the steps to get to the goal.

4. The principle of sustainability. Plans can be of 2 types: long term and short term. Therefore, it is important that plans are sustainable in nature. They should not give rise to additional hurdles and should focus on the completion of the goal.

Principles of Management – Function of Organizing

According to Taylor, Fayol and Urwick, the following are the most important principles of organizing the business activities.

1. The principle of objective. There exists a common goal for the organization. However, there also exist individual goals for every department. These individual goals help in achieving the organizational goal.

2. The principle of coordination. Not only should there be coordination within a department, but there should also be coordination among the different departments. Lack of coordination could lead to deviation from the actual goal.

3. The principle of balance. In order to organize the business activities, it is important to create a balance within every department. Managers should establish a balance to ensure that no employee is either over-worked or under-worked.

4. The principle of uniformity. There should be a uniform manner in which the organization delivers its activities. Lack of uniformity directly leads to the inability to organize the business activities in an effective manner.

5. The principle of efficiency. The organization should be able to organize its activities and achieve its objectives at a minimum cost. Hence, the organization should be able to provide job satisfaction to its employees. Because a happy employee will be efficient in their contribution.

Principles of Management – Function of Directing

Following are the most important principles of directing all the business activities towards achieving goals.

1. The principle of maximum individual contribution. Effective direction makes sure to bring out the best from every employee in the organization. It is therefore of paramount importance that directing is individually focused. This principle states the requirement of direction to reap the maximum contribution from every individual in the company.

2. The principle of the appropriateness of direction technique. Directing can be of different types. Motivation, encouragement, leadership, individual awareness are the most important types. But this principle speaks about the most suitable technique that a manager should adopt in order to direct his employees.

3. The principle of leadership. This principle focuses on a particular technique of directing. Leadership is a crucial aspect that every manager or superior or senior should take to. It is, therefore, one of the most important directing techniques that ensure the best results. A leader is necessary to lead a group of people towards the common objective.

4. The principle of following through. This principle states that the employees should be able to follow the rules and policies after a good direction. Hence, the answer lies in whether the directing was effective for the employees. An efficient direction system will lead to the smooth and satisfied achievement of the goals.

Principles of Management – Function of Coordinating

According to Mary Parker Follett, the following are the most important principles of co-ordination within the organization.

1. The principle of continuity states that coordination is a continuous process. In addition, this process of coordination within the organization must go on all the time. It is a managerial process which ensures the smooth working of the business activities. Mary Parker Follett suggests that every business has a constant need for coordination. And hence it cannot be left to the sheer chance. Therefore, the management should make a continuous effort to achieve it.

2. The principle of early beginning states that a business can achieve coordination at the early stages of planning and policy-making. If co-ordination has not been an important emphasis during the early stages of policy-making, it is difficult during the execution stage. It is essential to achieve coordination in the early stages of planning and policy-making.

3. The principle of direct contact states that a business can achieve co-ordination more easily by direct interpersonal relationships. Moreover, horizontal relationships and direct personal communication are important in achieving coordination. This is so because; direct contact can bring out an agreement on methods, actions and achievements.

Principles of Management – Function of Controlling

The following are the most important principles of controlling the business activities to avoid deviation from achieving the business goals.

1. The principle of flexible controls. It is important that every rule is flexible to an extent. Control limits should not be at extremes. Always remember that a rubber band is flexible and hence takes a lot of effort of snap. Therefore, this principle focuses on the importance of flexible controlling techniques. A rigid control could lead to adverse results like an upset employee.

2. The principle of exceptions. Every rules, every law and every regulation has a set of one of more exceptions. Exceptions are not loop-holes; they are mere relief to the plan. If a plan is rigid to an extent that it applies to everyone in every situation, it will not last for long because it is unrealistic. Hence, this principle of exceptions while controlling your employees is crucial.

3. The principle of action. Controlling ensures to check for deviations from achieving the pre-established goals. A Manager should be aware of what action to take in case of any detected deviations. Hence, this principle is important while controlling the business activities.

a) Explain what is meant by Coordination

In the organization, there are many individuals, groups and departments. They perform many different activities. **Co-ordination** means to integrate (i.e. bring together) these activities for achieving the objectives of the organization.

Coordination is done to achieve the objectives of the organization. Co-ordination is a process. It is not fixed. It applies to group activities. It does not apply to individual activities. The managers have to make special efforts to get coordination. Coordination does not come automatically. Co-ordination leads to unity of action.

Coordination encourages team spirit. It gives proper direction to the organization. It motivates the employees. It makes proper use of the resources. Coordination affects all the functions of management. Therefore, it is also called the "Essence of Management".

Coordination is the process by which manager synchronizes the activities of different departments. It is the force that binds all the other functions of management. The important features of coordination are:

(i) Integrates group efforts it binds the diverse efforts of individuals to attain the organizational goals.

(ii) Continuous process Coordination begins with planning and continues till controlling. Thus, it is a continuous process.

Coordination refers to the organization of all the activities in an orderly manner, to achieve unanimity of individual efforts in the pursuit of group goals. On the flip side,

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

Financial management means the efficient and effective management of money in such a manner as to accomplish the objectives of the organization. It is the specialized function directly associated with the top management. The significance of this function is not only seen in the ‘line’ but also in the capacity of ‘staff’ in overall administration of an organization. It has been defined differently by different experts in the field.

It includes how to raise the capital, how to allocate it i.e. capital budgeting. Not only about long term budgeting but also how to allocate the short term resources like current assets. It also deals with the dividend policies of shareholders.

Financial management in other words is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operation.

Hence financial management is an area of financial decision making, harmonizing individual motives and enterprise goals. Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

Whereas Financial Management is core to any business undertaking because of the following reasons: -

• Helps organizations in financial planning;

• Assists organizations in the planning and acquisition of funds;

• Helps organizations in effectively utilizing and allocating the funds received or acquired;

• Assists organizations in making critical financial decisions;

• Helps in improving the profitability of organizations;

• Increases the overall value of the firms or organizations;

• Provides economic stability;

• Encourages employees to save money, which helps them in personal financial planning.

We can as well explain some of the reasons as detailed under: -

**Diverse career opportunities:** Studying financial management opens up a lot of diverse career opportunities. It could be in the private or public sector. Some of the career options include investment banking, entrepreneurship, financial analysis, financial and managerial accounting, and strategic financial management. It is also beneficial for those people who are interested in starting their own business. Doing a financial management course or obtaining a finance degree can help people get promotions or better accounting jobs.

**Improve interpersonal skills:** Doing a course in this field will allow you to build better communication and teamwork skills through developing relationships with your colleagues.

**Builds personality:** Doing a course in this field also helps in improving your soft skills. This is because people who wish to work in this sector must be extroverts, and should be able to talk about finance for hours altogether. This helps in improving their personality, knowledge, and communication.

**Greater job prospects:** According the USA’s Bureau of Labour Statistics (BLS), there has been a spike in demand for finance manager jobs in US due to a “growing range of financial products and the need for in-depth knowledge of geographic regions”. This is further proven by the fact that the demand for careers in financial management has increased by 14%, careers in financial advising by 32%, and careers in financial analysis by 23%.

**Higher salary packages:** People working in this sector are usually paid very well, whether it is at the entry level or at the management level. Additionally, this is a highly skilled job role that is always in demand, even during recessions.

**Career growth:** There is always an opportunity to develop your professional skills and climb the career ladder. You can quickly acquire in-depth knowledge of financial management systems and financial management software once in this field. If you possess this knowledge and great aptitude skills, this field is perfect for you.

1. Define Budgeting. Give five functions of a budget.

Budgeting is Process of expressing quantified resource requirements (amount of capital, amount of material, number of people) into time-phased goals and milestones.

In other words budgeting can be defined as the process of [planning](https://www.myaccountingcourse.com/accounting-dictionary/planning) future business activities by establishing performance goals and putting them into a formal plan. In other words, budgeting is the process of making financial goals for a company and creating a plan to achieve those goals.

What Does Budgeting Process Mean? Creating a budget is much more than management sitting down and coming up with performance numbers that they want to meet in the next quarter. A [budget](https://www.myaccountingcourse.com/accounting-dictionary/budget) is really plan for the company’s future. Managers and board members meet and discuss where they want to see the company in years to come, what markets they want to exploit, and what products they want to create. In order to achieve any of these long-term plans, the company must have a way to create opportunities and track the progress along the way. That is exactly what a budget does.

**Example**

By budgeting for the future, management can calculate increases performance and increase the likelihood of success. They typically start the budgeting process by setting future goals and analyzing past performance. Once management has a good idea of how the company has performed historically, they can start making estimates and performance goals for future expected performance.

The budget doesn’t stop with just making performance goals. Management must evaluate and compare the actual performance with the expected performance periodically to see how well close the company is to achieving its goals. If certain departments aren’t meeting their goals, management must correct the problem during the period, so the company, as a whole, can meet their numbers by the end of the period.

As you can see, the budgeting process is much more than simply creating a report at the beginning of a period. It’s an ongoing effect to improve the performance of the company by tracking actual results and comparing them to specific goals.

In short Budget is a document, which is referred for the health check of the organization during the budgeted period.

The functions of budget are stated as under:-

* **The budget—for planning and control:** Time and money are scarce resources to all individuals and organizations; the efficient and effective use of these resources requires planning. Planning alone, however, is insufficient. Control is also necessary to ensure that plans actually are carried out. A **budget** is a tool that managers use to plan and control the use of scarce resources. A budget is a plan showing the company’s objectives and how management intends to acquire and use resources to attain those objectives.
* **Budgeting** involves the coordination of financial and nonfinancial planning to satisfy organizational goals and objectives. No foolproof method exists for preparing an effective budget. However, budget makers should carefully consider the conditions that follow:
* **Top management support** All management levels must be aware of the budget’s importance to the company and must know that the budget has top management’s support. Top management, then, must clearly state long-range goals and broad objectives. These goals and objectives must be communicated throughout the organization. Long-range goals include the expected quality of products or services, growth rates in sales and earnings, and percentage-of-market targets. Overemphasis on the mechanics of the budgeting process should be avoided.
* **Participation in goal setting** Management uses budgets to show how it intends to acquire and use resources to achieve the company’s long-range goals. Employees are more likely to strive toward organizational goals if they participate in setting them and in preparing budgets. Often, employees have significant information that could help in preparing a meaningful budget. Also, employees may be motivated to perform their own functions within budget constraints if they are committed to achieving organizational goals.
* **Communicating results** People should be promptly and clearly informed of their progress. Effective communication implies (1) timeliness, (2) reasonable accuracy, and (3) improved understanding. Managers should effectively communicate results so employees can make any necessary adjustments in their performance.
* **Flexibility** If significant basic assumptions underlying the budget change during the year, the planned operating budget should be restated. For control purposes, after the actual level of operations is known, the actual revenues and expenses can be compared to expected performance at that level of operations.
* **Follow-up** Budget follow-up and data feedback are part of the control aspect of budgetary control. Since the budgets are dealing with projections and estimates for future operating results and financial positions, managers must continuously check their budgets and correct them if necessary. Often management uses performance reports as a follow-up tool to compare actual results with budgeted results.
* **Advantages of Bottom – Up Budgeting Approach:** The managers shall be motivated as the ownership of budget is in their hands. The budget will be more realistic as managers will have a better knowledge of the operations of the organization.

Managers will be more committed towards the organization and targets set by them as they are the owners of the same.

Senior management will now only have to concentrate on the overall business strategy rather than a business unit wise.

The budget can be quite accurate for the individual task which leads to overall accuracy over the total budget.

1. Discuss the importance of cash management (cash flow forecasts)

**Cash Management Basics**

Business analysts report that poor management is the main reason for business failure. Poor cash management is probably the most frequent stumbling block for entrepreneurs. Understanding the basic concepts of cash flow will help you plan for the unforeseen eventualities that nearly every business faces. Below, you will find useful information regarding the importance of cash management for your small business.

**Cash vs. Cash Flow**

**Cash** is ready money in the bank or in the business. It is not inventory, it is not accounts receivable (what you are owed), and it is not property. These can potentially be converted to cash, but can't be used to pay suppliers, rent, or employees.

Profit growth does not necessarily mean more cash on hand. Profit is the amount of money you expect to make over a given period of time, while cash is what you must have on hand to keep your business running. Over time, a company's profits are of little value if they are not accompanied by positive net cash flow. You can't spend profit; you can only spend cash.

**Cash flow** refers to the movement of cash into and out of a business. Watching the cash inflows and outflows is one of the most pressing management tasks for any business. The outflow of cash includes those checks you write each month to pay salaries, suppliers, and creditors. The inflow includes the cash you receive from customers, lenders, and investors.

**Positive Cash Flow** If its cash inflow exceeds the outflow, a company has a positive cash flow. A positive cash flow is a good sign of financial health, but is by no means the only one.

**Negative Cash Flow** If its cash outflow exceeds the inflow, a company has a negative cash flow. Reasons for negative cash flow include too much or obsolete inventory and poor collections on accounts receivable (what your customers owe you). If the company can't borrow additional cash at this point, it may be in serious trouble.

A "Cash Flow Statement" shows the sources and uses of cash and is typically divided into three components:

**Operating Cash Flow:** Operating cash flow, often referred to as working capital, is the cash flow generated from internal operations. It comes from sales of the product or service of your business, and because it is generated internally, it is under your control.

**Investing Cash Flow:** Investing cash flow is generated internally from non-operating activities. This includes investments in plant and equipment or other fixed assets, nonrecurring gains or losses, or other sources and uses of cash outside of normal operations.

**Financing Cash Flow:** Financing cash flow is the cash to and from external sources, such as lenders, investors and shareholders. A new loan, the repayment of a loan, the issuance of stock, and the payment of dividend are some of the activities that would be included in this section of the cash flow statement.

**Good cash management is simple. It involves:** Knowing when, where, and how your cash needs will occur; Knowing the best sources for meeting additional cash needs; and Being prepared to meet these needs when they occur, by keeping good relationships with bankers and other creditors. The starting point for good cash flow management is developing a cash flow projection. Smart business owners know how to develop both short-term (weekly, monthly) cash flow projections to help them manage daily cash, and long-term (annual, 3-5 year) cash flow projections to help them develop the necessary capital strategy to meet their business needs. They also prepare and use historical cash flow statements to understand how they used money in the past.

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

Balance sheets are one of the most important financial statements of a business. They disclose details relating generally to assets and liabilities. They even show the exact nature of these assets and debts. Let us take a look at the contents of balance sheets and some peculiar items they contain.

A balance sheet contains two parts. One side shows assets, while the other contains details of liabilities. Every balance sheet of a company has to be prepared in consonance with (Revised) Schedule VI of Companies Act, 1956.

Schedule VI also contains many other disclosure requirements. Balance sheets and statements of profits and losses must reflect them as well. The format of these should be the same as the Schedule provides.

**Contents of a Balance Sheet and Peculiar Items**

Along with several peculiar items, a balance sheet must contain the following items.

**1. Shareholders’ Fund**

According to Schedule VI, a balance sheet must sub-classify shareholders’ fund as follows:

* Share capital
* Reserves and surplus
* Money receivable against share warrants

**2. Share Capital**

The notes to accounts in a balance sheet must state details pertaining to share capital. They must also include the following peculiar items and modifications:

* Disclosures for each class of shares must state the number of shares outstanding.
* They must also disclose restrictions on distribution of dividends and payment of capital.
* Further, to clarify the identities of promoters of the company the notes to accounts must show details pertaining to certain classes of shareholders.
* Details of authorized shares, paid-up capital, par value of shares, the aggregate value of shares allotted to each class of shareholders, etc. must be stated separately.
* Accountants also have to disclose the number of forfeited shares, terms & conditions of convertible securities, number of shares bought-back, etc.

**3. Reserve and Surplus**

Every balance sheet has to classify all reserves and surplus funds of a company in the following categories:

* Capital Reserve
* Capital Redemption Reserve
* Debenture Redemption Reserve
* Securities Premium Reserve
* Share Options Outstanding Account
* Revaluation Reserve
* Surplus funds like the balance of profit and loss statement, dividend, bonus shares, etc.

**4. Money Received Against Share Warrants**

The balance sheet must disclose all money receivable from share warrants as a separate line under Shareholders’ Funds.

**5. Classification of Current and Non-Current Items**

All assets, liabilities and other peculiar items have to be categorized as either current or non-current. This classification is necessary because it helps in understanding these items comprehensively.

Current items are basically those that have a shorter value of utilization period. Thus, they are realizable within 12 months, they are tradeable, they are cash or cash-equivalent, etc. On the contrary, all other assets and liabilities are non-current. Hence, they are realizable beyond the period of 12 months.

**6. Liabilities**

Balance sheets show liabilities along with details of share capital and equity. As we read above, liabilities can be current or non-current.

Current liabilities are basically those which are repayable within 12 months. For example, trade payables are current liabilities. Concurrently, those that are payable after a year are non-current or long-term liabilities. Thus, bank loans are generally non-current debts.

**7. Fixed Assets**

Balance sheets always depict all assets below details of equity and liability. First, fixed assets are described, and then current assets. Fixed assets are nothing but non-current assets. Thus, their useful life extends beyond 12 months. Fixed assets include both tangible as well as intangible assets. Apart from these assets, all other assets are current assets.

**8. Investments**

Even investments of a company are assets. Furthermore, they can also be current or non-current. Investments realizable within 12 months are current investments, while all others are non-current.

**9. Cash and Cash Equivalent**

All cash funds and cash-equivalent items of a company are treated as current assets. Balance sheets always have to show them separately. All these rules generally have to be followed strictly in balance sheets. Apart from these, accountants also have to show other peculiar items like trade payables, trade receivables, inventories, provisions, etc.

**Key Differences between Trial Balance and Balance Sheet**

1. Statement of debit and credit balances were taken from general ledger is known as Trial Balance. Statement of assets and equity & liabilities is known as Balance Sheet.
2. Trial Balance does not include closing stock while the Balance Sheet does not include opening stock.
3. Trial Balance checks the arithmetical accuracy in the recording and posting while balance sheet is prepared to determine the financial position of the company on a specific date
4. Trial Balance is prepared after posting into ledger whereas Balance Sheet is prepared after the preparation of Trading and Profit & Loss Account.
5. The Balance Sheet is the part of the Financial Statement while Trial Balance is not a part of the Financial Statement.
6. Balances of all personal, real and nominal account are shown in the trial balance. On the contrary, Balance sheet shows the balances of personal and real account only.
7. The trial balance is prepared at the end of each month, quarter, half year or the financial year. Conversely, the balance sheet is prepared at the end of each month.
8. The trial balance is prepared for internal use only; however, the balance sheet is prepared for both internal and external use, i.e. to inform outside parties about the financial condition of the entity.

**Conclusion**

There are many differences between the two statements. The Trial Balance and Balance Sheet are very dissimilar from each other. The preparation of Trial Balance is not compulsory at all, but the preparation of Balance Sheet is obligatory for every company. The Trial Balance is not read by the users of the financial statement or stakeholders, but Balance sheet is used by them.

Trial Balance can be prepared as per requirement of the organization while the Balance Sheet is prepared at a particular date which is usually at the end of the accounting year.

.[[1]](#endnote-1)

1. Reference ‘‘Principles of Management’’ Formulated by Henry Fayol, a famous industrialist of France, has described fourteen principles of management in his book General and Industrial Management 1916.

   1. Read more: http://www.businessdictionary.com/definition/budgeting.html
   2. Learn More About the Importance of Cash Management from a Lawyer

   [↑](#endnote-ref-1)