# Section 1. Key Concepts of Financial Management

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**ABSTRACT**

Financial management in a business means planning and directing the use of the company's financial resources -- the cash it generates through its operations and the capital obtained from investors or lenders. Although a company may have an accounting staff or an outside accounting firm to provide financial guidance, financial management is one of the most important aspects of the business owner's job.


## Cash Management

**A goal of the cash management function is to make certain the business enterprise always has the resources it needs to meet its financial obligations on time. A cash deficit compared to what the owner forecast can cause serious harm to the company's image and operations. For example, the company may not be able to fill an important order because it cannot pay for the raw materials needed to make the products. Managing accounts receivable and accounts payable is part of effective cash management. The business owner wants to make certain he is collecting all the funds due the company -- the accounts receivable -- as quickly as he can. Conversely, he seeks to stretch out the time he takes to pay bills from outside vendors. In doing so, he doesn't want the company to get a reputation for paying so slowly that his suppliers insist on strict terms such as payment upon delivery.**

## Planning and Forecasting

**The financial management aspect of planning involves accurately forecasting the company's revenues, expenses and resulting net profit. The business owner uses the forecast -- sometimes called a budget -- as a tool to manage the company. Significant negative variances to forecast indicate that the business environment and his company's performance in the marketplace were not what he assumed they would be when he created his annual plan. Analyzing these variances focuses his attention on changes he needs to make to his strategies or operations to get the company back on course to reaching its goals.**

## Financial Reporting

**A business owner and his management team require timely and accurate reports in order to make decisions and run the company effectively. The staff members responsible for financial management must determine the key pieces of information the owner and his team need for decision making. They then design reports to provide this information in a format that is most useful to the management team. The most significant metrics vary by the type of company. A hotel owner, for example, keeps a close eye on occupancy -- the percentage of rooms used. A decline in occupancy compared to the same month in the previous year would prompt investigation by the financial staff into whether this was due to unusual circumstances such as bad weather or indicative of competitors taking business away from the hotel.**

## Capital Structure

Startup companies often need to obtain outside capital from wealthy individuals or venture capital firms in order to fund the company until it reaches the breakeven point. As the company grows, it may need additional infusions of capital to fund expansion. The financial management function determines the best form of capital for the venture -- debt, equity or a combination -- how much is required and when it is needed. Larger companies with stable cash flow can borrow funds from financial institutions rather than having to give up an equity share to investors in order to get the capital the company requires.

## Section 2. Primary Goals of Financial Management

Financial management enhances the achievement of operational and strategic business objectives.

Related Articles

1 What Are Financial Management Objectives?
2 What Are the Different Functions of Business Finance?
3 Why Is Financial Management So Important in Business?
4 What Is the Meaning of Business Finance?

**ABSTRACT**

Financial management is a process that enables a business to plan, direct, organize, monitor and control its current and future financial resources and events. It involves applying the basic principles of management in financial activities such as purchases, sales, capital expansion, inventory valuation, financial reporting, and profit distribution. A business organization is organic in nature, and its successful growth depends on the financial efficiencies of operations and strategies. Therefore, the primary goals of financial management dwell on both short-term and long-term activities that seek to maximize value creation from scarce financial resources.

## Disseminating

Timely dissemination of monthly, quarterly and annual financial information to internal and external stakeholders is a significant goal of financial management. It ensures that financial information is prepared in accordance with accounting principles and International Financial Reporting Standards. This provides internal stakeholders -- that is, owners and employees -- with reliable information on the performance and profitability of the business. The financial reports furnish suppliers with the information they require to determine the stability of the business, and enable the government to examine the tax obligations of the business.

## Planning

Financial plans and forecasts aim at facilitating efficiency in the current and future activities of the business. The planning process seeks to match the organization’s operational and investment activities to its overall cash flow capabilities. Current and future cash flow projections determine the scope of short-term and long-term plans of the business. This goal ensures sufficient funds are sourced in good time and allocated to different business activities. Financial planning also ensures the business engages in profitable long-term investments. For example, capital budgeting analyzes the financial viability and profitability of long-term assets prior to procuring such assets.

## Managing Risks

Risk management is a very important goal because it touches on one of the soft underbellies of the business enterprise. Financial management prescribes the appropriate contingency measures for both operational and strategic risks. Insurance and automated financial management systems help business owners and employees to prevent or reduce the risks from theft, fraud and embezzlement. Internal and external auditing processes also enhance the detection of fraud and other forms of financial malpractices.

## Exerting Controls

The financial management function exerts internal controls over financial resources with the objective of ensuring efficient resource utilization. These controls enhance scrutiny of financial transactions to prevent business owners or employees from violating financial principles or undermining transparency. The goal of enhancing internal financial controls is pursued through oversight by the senior financial management staff and internal auditors. Failure to exert internal financial controls could spell unprecedented consequences for the business, as was the case of financial reporting scandals by Enron, Tyco and WorldCom in the early 2000s.