

## **Section 5. The Important Roles within a Financial Management System**

The CFO as financial manager governs the corporate finance function.

### **Related Articles**

1. Why Is Financial Management So Important in Business?
2. Advantages & Disadvantages of Financial Management
3. What Are Financial Management Objectives?
4. Importance of Finance & Its Role within Business

### **ABSTRACT**

An organization's financial management plays a critical role in the financial success of a business. Therefore, an organization should consider financial management a key component of the general management of the organization. Financial management includes the tactical and strategic goals related to the financial resources of the business. Some of the specific roles included in financial management systems include accounting, bookkeeping, accounts payable and receivable, investment opportunities and risk.

## **Accounting and Bookkeeping**

When establishing any financial management system, a business needs to determine if the management of the system will occur in-house or if it will use an outside entity. Any accounting system should measure, identify, record and communicate all of the financial information about the organization. The foundation of an effective accounting system is good bookkeeping. A bookkeeper gets the complete and accurate financial information to the accountant. While the accounting system looks at the overall financial picture of the organization, bookkeeping deals with the specific transactions that take place on a day-to-day basis.

## **Accounts Payables and Accounts Receivables**

Account payables provide an organization with information about accounts with suppliers. This includes the outstanding sums of money owed to these suppliers. Additionally, account payables will show the cost of items purchased, how the organization made payments in the past and details about the transaction. Accounts payable will also show the workflow and allow the business to approve invoices, update records and maintain an integrated document management system. Account receivables, on the other hand, records what customers owe the organization for products and services purchased. An accounts receivables system can keep track of invoices, payments, produce reminder letters for outstanding payments and calculate interest for balances owed. Additionally, accounts receivables can help the organization recover past due accounts before they become bad debts.

## **Investment Opportunities**

Another aspect the financial management system relates to finding opportunities that can complement or benefit the organization. A business can only exploit these opportunities if the organization efficiently and effectively finds the opportunities and has the ability to pay for the desired acquisitions. By carefully considering the different aspects of the financial management system, a business can evaluate its overall financial health and determine its ability to invest in potential opportunities.

## **Risk**

A business also must carefully evaluate risk. A primary goal of the financial management system is to minimize risks for the organization by implementing strategies that help the business to counteract unforeseen liabilities. The financial management system should include adequate insurance for property, equipment and key employees. Additionally, budgeting for quarterly and yearly working capital helps to minimize potential financial risk for the organization. Further, controlling debt and establishing a credit system with suppliers and financial institutions helps to minimize financial risk by allowing the business operational flexibility in the event the business experiences cash flow problems.

<http://smallbusiness.chron.com/important-roles-within-financial-management-system-31146.html>

## **Section 6. Advantages & Disadvantages of Financial Management**

Financial managers are rarely popular when they cut funds.

### **Related Articles**

1. What Are the Benefits of a Financial Management Information System?
2. Sources of Finance and Their Advantages & Disadvantages
3. Why Is Financial Management So Important in Business?
4. Advantages & Disadvantages of Financial Statement Analysis in

### **Decision Making**

Businesses have many areas to manage to keep things working smoothly. Finance is just one of these areas. Because finances impact virtually everything else the company does, it's probably the most important thing a manager must address. However, there are both advantages and disadvantages to financial management in business. Usually the pros outweigh the cons, but managers still must be prepared to face the negative consequences of tracking the money a business has and spends.

### **Research, Time and Knowledge**

Financial management requires a significant amount of information, which takes time to collect. Once the data is gathered, you must take time to analyze it properly and discuss it with others involved. If you aren't sure how to approach a financial question, you must either learn about it or call in an expert, especially as company objectives change or the market shifts.

## **Cost**

The expertise, information and time involved with financial management has a very real price tag your company must take into account. You must pay those in your accounting department or the consultants you hire, and even if you handle the finances of the business alone, you cannot work for free.

## **Revision and Attention**

The financial needs and situation of a business shift constantly, based on market variables and the results of internal controls. For example, you may find that the cost of a part rose 10 cents from the previous budget period -- this drives up your cost of production and forces you to evaluate your budget. Financial management, therefore, is not a do-it-and-leave-it task. You must revisit it and do so often.

## **Power**

Managers often have to make the final call on where money goes in a business. Employees may take it personally if you don't allot money to them or their projects. This can lead to bad relations within the company.

## **Money Availability**

When you manage your finances well, you know exactly what you're spending and what you're earning. You also know when funds will be available. With this knowledge, it's much less likely that you'll run into debt or be unable to pay back what you already owe. You know that money will be available when you need it.

## **Planning**

When you manage your business funds, reviewing the financial data allows you to identify specific trends and make some forecasts for the future. Because your finances connect directly to what you can do in the business, this lets you develop new strategies for your operations and plan what you're going to do from both the short- and long-term perspectives. You also can assess your areas of risk and take steps to fix problems.

## **Accountability**

Financial management forces you and everyone else in the business to make a case for everything on which they're spending. With proper financial controls, you also can prevent instances of fraud. Financial management thus is a major tool for keeping everyone in your business accountable.

## **Confidence**

Proper financial management usually means that a company can grow in one or more areas, or at the very least, remain stable. It also provides you with an opportunity to follow through on your policies and plans. When these things happen, your employees and investors may have more confidence in you as a business leader. This often translates into continued loyalty.

<http://smallbusiness.chron.com/advantages-disadvantages-financial-management-21294.html>