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FINANCIAL MANAGEMENT AND FINANCIAL PLANNING IN THE ORGANIZATIONS

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Abstract

Financial Management refers to the application of general management principles to the various financial resources which are projecting. This encompasses planning, organizing, directing and controlling of the financial activities. Financial planning is process of framing objectives, policies, procedures, programs and budgets regarding the financial activities. This ensures effective and adequate financial and investment policies, adequate funds have to be ensured, ensuring a reasonable balance between outflow and inflow of funds, ensuring suppliers of funds, preparation of growth and expansion programs which helps in long-run survival of the company, reduction of uncertainties with regards to changing market trends which the company could be faced with, ensuring stability and profitability.

Keywords: management, finance, organization, growth

Introduction

The financial management is usage of financial estimates which affect the financial condition in business of the organizations. The financial management enables the organizations to plan, to use projects, future financial realizations of capital, property and necessary stuff for maximization of the return of investments.

Financial planning is the first phase of financial management, which means management of total cash flows which are needed in order to provide the necessary funds, to predict the overall inflow and outflow of funds, to perform financial control not only on the current, but on the future financial and business events as well. The financial planning in organizations is performed in order to predict future financial results and in order to determine the company's best way to use the financial resources for achievement of its short-term and long-term goals.

The financial planning in the organization is a task which determines in which way the organization is going to achieve its strategic goals. Usually, the organizations prepares financial plan after the establishment of the vision and the goals that it would like to achieve by its operation. The financial planning determines which raw materials are going to be procured, the products which are going to be produced, and the most efficient way to sell them on the market. The financial planning impacts the human and material resources which are going to be used in order to enable the company to run the business. The financial planning is essential determining factor whether the company will be able to accomplish its business profitably.

1. Characteristics of financial management

Financial management means planning, organizing, directing and controlling of financial activities, such as procurement and usage of organization's assets. The financial management applies the general management principles on the organization's financial resources. The financial management includes:[3]

- Investment decisions – investments in basic assets (capital) and investments in current assets – working capital,
- Financial decisions - decisions relating the increase of funds from different sources, time of financing, costs for the assets and the return of those assets,
- Dividend decisions – allocation of net profit in two categories – dividends for shareholders and remaining profit.

Generally, the financial management is related to procurement, allocation and control of financial resources. The objective of financial management is:

- regular and appropriate provision of funds,
- to provide regular return to the shareholders, depending on the capacity of earning, market price of the shares and shareholders' expectations,
- to provide optimal usage of the funds. Since the assets are provided, they should be used maximum with lowest costs,
- to provide investments security, that is to invest assets in secure undertakings and thereby to provide appropriate rate of return,
- to plan the whole capital structure – to maintain balance between debts and capital value.

The financial management has function to estimate the requirements for capital which the company needs. That depends on the expected costs and profit and future programs and policies. The capital estimation should be performed in a way that will increase the company's earning capacities. Once the assessment is made, the capital structure in short-term and in long-term, as well as the borrowings and capital value should be determined. Then, it is followed by the selection of assets sources, which may be shares and bonds, bank loans, loans from financial institutions, public deposits in form of bonds. Financial management means to make decisions for allocation of the assets in profitable undertakings and in secure investments with regular return of investment. Financial management also includes making decision about cash management, payment of salaries, electricity costs, repayment of loans, maintaining inventory, procurement of raw materials. The last activity of financial management is financial control which may be realized through various techniques, such as relationship analysis, financial forecasting and cost and profit control.

2. Definition of financial planning

Financial planning is process of estimation of capital necessary for accomplishing the organization's business activities. That is a process of formulation of financial policy in relation to provision of assets, investments and organization's funds management. Financial planning is process of formulation of goals, policies, procedures, programs and budget that refer to organization's financial activities. Financial planning means:[4]

- providing appropriate funds,
- providing appropriate balance between the incoming and outgoing funds,
- preparation of growing and development programs which ensure long-term sustainability of the organization,
- decrease of uncertainty regarding to market changes which the organization may face with,
- decrease of the uncertainty which could affect the organization's growth,
- helping to provide stability and profitability

Financial planning means predicting, directing, synchronizing and premeditated distribution of the elements of organization's finance function. The financial planning primary refers to planning of cash flows and the organization's financial structure. The financial planning includes the monetary expressed total activity of the organization, the amount and structure of the funds, the sources of financing and financial flows for certain time period.

Actually, the financial planning represents concretization of the financial policy through financial plans in which the objective is put on value expression in time and space. The financial planning is being expressed as:[5]

- Planning of sources of financial resources and their flows,
- Organization's own financial planning.

Actually, the financial planning represents concretization of the company's financial policy. The objective of the

[3] What Is Financial Management? Financial Management - Meaning, Objectives and Functions, www.managementstudyguide.com/financial-management.htm
[4] Financial Planning - Definition, Objectives and Importance
www.managementstudyguide.com/financial-planning.htm
[5] Finansijsko prognoziranje i planiranje | Edukacija
edukacija.rs/poslovne.../finansijsko-prognoziranje-i-planiranje

financial policy, as policy of finance function, is to provide the organization financial power which is expressed as permanent ability for:[6]

- payment,
- funding,
- investment,
- increase of organization's property,
- meeting the interests of managers, employees, suppliers, shareholders.

Financial planning means definition of financial goals, development of financial plans and their implementation by realization of financial activities related to making decisions for necessary assets, loans, insurance, investment and property, then preparation of financial statements, evaluation of the results and control of plans realization.

Financial planning is process of predicting and projecting of sales, incomes and assets in order to implement the planned operating of the organization, to realize the strategies and to determine the resources necessary for realization of the planned goals. Financial planning is comprised of the following elements:[7]

- Aware planning activity in the field of finance according to organization's goals,
- Forecasting of inflow and outflow of funds which derive from organization's business activities,
- Perceiving of various alternatives in relation to optimal usage and provision of funds for payments.

3. Financial planning process

The financial planning process is a logical, six-step procedure:[8]

- determining the current financial situation,
- developing financial goals,
- identifying alternative courses of actions,
- evaluating alternatives,
- creating and implementing a financial action plan,
- reevaluating and revising the plan.

Determining the current financial situation means determination of the situation with regard to incomes, costs, liabilities, loans, receivables.

Developing financial goals - firstly, an analysis should be performed and the needs for achieving what is wanted should be determined, and it is followed by specifying goals and determining how the current income will be spent in order to provide funds for investments for securing the future financial security.

Identifying alternative courses of actions means determining the factors which will affect the continuity of actions, expansion of the current situation, new courses of actions, the creativity in decision making and considering the possible alternative solutions which can lead to more effective decisions.

Evaluating alternatives means taking into consideration the conditions in which the business activities will be performed, the values of the organization and current economic conditions in the environment. It needs to be evaluated where will the assets be invested, what kind of costs will be made for production, also to evaluate the risks, and which information will be used in order to make relevant decisions.

Creating and implementing a financial action plan means to develop plan, i.e. to choose way to achieve the financial goals. The financial action plan needs to be implemented by all employees, to provide assets, to invest, to maintain inventory, to provide shares or bonds or mutual funds.

Reevaluating and revising the plan means dynamic following of the plan implementation, assessing the financial decisions and adapting to the new changes of personal, social and economic factors. The review of the implementation of the financial plan enables priority adjustments which will enable the organization to achieve its financial goals.

4. Financial plan

The financial plan helps the managers to achieve the organization's goals. The financial plan answers the

[6] Mr Milan Lakicevic, Ekonomski fakultet, Podgorica, www.finansije.net/Finansijski%20menadzment/.../vjezbe10i11.doc
[7] Finansijsko planiranje, www.vps.ns.ac.rs/Materijal/mat1558

[8] The financial planning process, novella.mhhe.com/sites/0079876543/student_view0/junior.../financial_planning.html

following questions:[9]

- How much funds, in short-term or long-term, does the organization need?
- Where will that funds be provided from, i.e. which are the sources of financing (own equity or borrowed equity (shares, bonds, securities etc.)
- How is the organization going to use the funds?

The financial plan includes various financial information, statements, reviews and projections of the organization's current financial position and where it wants to be in the forthcoming period. This information help to determine how much funds the organization needs to run the business and where will that funds be provided from – whether borrow or invest, and how to use the provided funds rationally. The financial plan expresses the financial sustainability of the organization by evaluation of three perspectives - solvency, profitability and liquidity. The solvency assesses changes in net worth, profitability controls the earnings, and liquidity assesses cash flows and possibilities for loan repayments. The financial plan should include three key components:[10]

- Statement of incomes and expenses,
- Balance sheet,
- Statement of cash flows.

In ***the statement of incomes***, the incomes and expenses of the organization are summed. Incomes represent the result from sales of products or services and other sources of income. Expenses include production costs, salaries, contributions, interests. The statement of incomes and expenses shows the amount of profit or loss that the company will make for a period of one year. The statement of incomes and expenses includes:

- *Incomes* – income growth and expectations how it is going to be achieved,
- *Expenses* – operating expenses, such as expenses for supplier costs, interests, salaries, loan repayments, contributions and taxes,
- *Production costs* – production costs of products which are being sold,
- *Gross profit* – sales minus all costs related to sales,
- *Operating profit* – profit of the organization after deduction of operating costs from gross profit,
- *Net profit* - total incomes minus total expenses,
- *Net profit before tax* – amount of profit before payment of the contributions,
- *Net profit after tax* – net income minus contributions and taxes.

Balance sheet contains assets and liabilities of the organization. Its name is balance sheet because there should be compliance between assets and liabilities of the organization. The balance sheet is significant to the organization because it shows its financial position in certain time and what it possesses. The balance sheet provides annual picture for the business finances of the organization. It includes:

- *Current assets* – including cash, inventory, bank accounts and fixed assets. Fixed assets include equipment, buildings, land and other immobile assets.
- *Liabilities* – short term liabilities, including payments for salaries and fees, payments from bank accounts, payment of taxes and contributions. Long-term payments, including payments for liabilities on loans and bond at the end of the year.
- *Capital* – investments and retained net worth of the earning for future investments.

Cash flow statement shows the amount of money which are expected to be made and invested in the business in specified time. The cash flow predicts how much money will be made from the predicted sales, how many loans will be got and how much money will be made from other sources, how much expenses will be made and how will they be covered. The cash flow statement includes:

- Cash inflow – how much money are expected to enter in the organization – based on projected sales and incomes on the bank accounts on other basis,

[9] Elizabeth Wasserman: How to Write the Financial Section of a Business Plan
www.inc.com/guides/business-plan-financial-section.html
[10] Amy Fontinelle: Business Plan: Your Financial Plan
http://www.investopedia.com/university/business-plan/business-plan7.asp#ixzz4UkxELBLw

- Cash outflow – expected cash expenses on all basis.

As a document, the financial plan contains the following elements:[11]

- Resume
- Basic presumptions
- Key financial indicators
- Profitability graph
- Balance sheet
- Display of projections for profit/loss,
- Display of projections for cash flow.

The resume includes the most important characteristics from the other content of the financial plan, obtaining funds, key financial indicators from the other elements (subheadings).

The part for basic financial presumptions contains some presumptions which are made on the basis of analysis relating to the capacity for payment. The following presumptions are being stated:

- Movement of interest rates
- Time of postponed payment?
- Period in which payment are made?
- Amount of taxes?
- Amount of costs?
- Percentage of credit sales?

Key financial indicators as an element of the financial plan include general costs, such as costs for salaries, rent, operating costs, total costs per year, gross margin as difference between sales income and total sales costs (direct costs), net profit calculated by deduction of all expenses, as well as taxes from total sales income.

Profitability graph presents an amount of money needed in order to cover all costs of the business, how many pieces of products or hours of services are needed in order to cover the costs. The break-even point is the point above which the business will make profit.

Projection of profit or loss gives a description of the presumption and tabular display of profit/loss that will also include the costs.

Analysis of cash flow indicates the movements of cash, i.e. how much money are there in the moment for realization of business, raw materials, salaries for the employees, loan repayments, funding the business growth. The cash flow is movement of the money inside the organization and outside, i.e. cycle of cash inflows and outflows which, in fact, determines the solvency, ability to pay.

Conclusion

The financial management means planning, organizing, directing and controlling of financial activities, such as procurement and usage of organization's assets. Generally, the financial management is related to procurement, allocation and control of financial resources. The financial management has function to estimate the requirements for capital which the organization needs. Financial planning is process of formulation of goals, policies, procedures, programs and budget that refer to organization's finance function. Actually, the financial planning represents concretization of the financial policy through financial plans in which the objective is put on value expression in time and space.

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