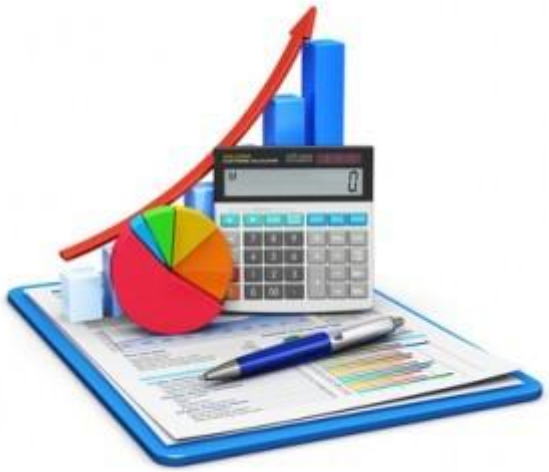
UNIT 2
MANAGING FINANCIAL RESOURCES AND DECISIONS



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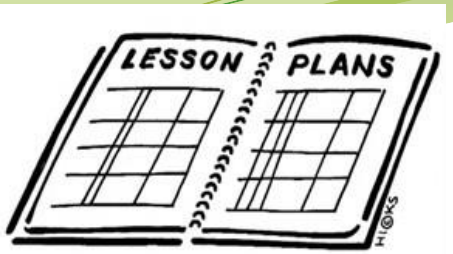
MANAGING FINANCIAL RESOURCES AND DECISIONS

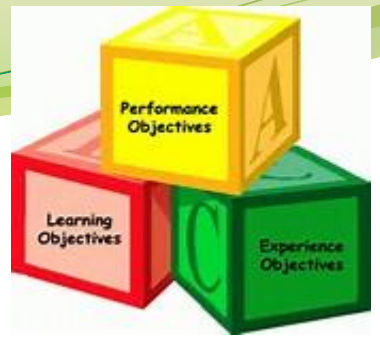
- **LO 2:Understand the implications of finance as a resource within a business**



THE BASIC SYLLABUS

- Understand the sources of finance available to business.
- Understand the implications of finance as a resource within a business
- Be able to make financial decision's based on financial information
- Be able to evaluate the financial performance of a business.

LEARNING OBJECTIVE



- At the end of the class students should be able to:

- AC 2.2 Explain the importance of financial planning

OVERVIEW

- Financial planning means deciding in advance, the financial activities to be carried on to achieve the basic objective of the firm. The basic objective of the firm is to get maximum profits out of minimum efforts.
- The basic purpose of the financial planning is to make sure that adequate funds are raised at the minimum cost (optimal financing) and that they are used wisely. Thus planners of financial policies must see that adequate finance is available with the concern, because an inadequate supply of funds will hamper operations and laid to difficulties.

CASH BUDGETING

- A cash budget is a commitment to a plan for cash receipts and payments for a future period after taking any action necessary to bring the forecast into line with the overall business plan.
- Cash budgets are used to:
- -assess and integrate operating budgets
- -plan for cash shortages and surpluses
- -compare with actual spending.

CASH BUDGETING

- Companies are likely to prepare a cash budget as part of the annual master budget, but then to continually prepare revised cash forecasts throughout the year, as a means of monitoring and managing cash flows.

IMPLICATIONS OF FAILURE TO FINANCE ADEQUATELY

- Cash flow issues are bound to occur if the organization does not plan properly for where and when the finances are needed. Late payments are likely to result in suppliers becoming unreliable or cutting off the supply of their goods or services. Late payments can also result in additional interest payments or other financial penalties that cut into profits. Cash flow problems can go so far as to result in the inability to pay employees on time. This is bound to have a negative impact on employee loyalty and retention.

OVERTRADING

- Cash flow is the lifeblood of the thriving business. Effective and efficient management of the working capital investment is essential to maintaining control of business cash flow. Management must have full awareness of the profitability versus liquidity trade-off.
- For example, healthy trading growth typically produces:
- -increased profitability
- -the need to increase investment in non-current assets and working capital.

OVERTRADING

- In contrast to over-capitalisation, if the business does not have access to sufficient capital to fund the increase, it is said to be "overtrading". This can cause serious trouble for the business as it is unable to pay its business creditors.

REFERENCES

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