Finance For Non-Finance Personnel (Author- Dr Kanak Madrecha) 29-4-2020

Financial Management: It involves arranging funds (equity from owners/shareholders or loans from banks /individuals) on time at minimum cost, managing long term & annual budgeting, accounting & controlling sales revenue and material, manpower, interest, energy overhead expenses, following up receivables from customers & making timely payments to suppliers, employees, banks, shareholders and government.

Three key documents of Financial Management:-

1. **Profit & Loss Statement**: Profit & Loss Statement accounts for sales & other revenue, fixed & variable expenses and gross & net profit for a period i.e. for Month/ Quarter/ Year. This shows **profitability**.
2. **Balance Sheet**: A Balance Sheet is a statement of the financial position of a business that lists the assets, liabilities, and owner's equity at a particular point in time. In other words, the balance sheet illustrates your **business's net worth**. This is very useful to borrow from banks or raising equity.
3. **Cash Flow Statement**: A Cash Flow Statement is a financial statement that provides aggregate data regarding all cash inflows a company receives from its operations and external investments. It includes all cash outflows that pay for business activities & investments during a given period. Cash is King.

Three key Financial Ratios:-

1. **Net Profit Margin** : This is net profit as % of total (sales & other) revenue. This demonstrates company's overall profitability. Higher this % better for an organization for its long-term survival & growth.
2. **Debt to Equity**: The debt to equity ratio shows a company's debt (i.e. loans taken from banks or others and net payables to outsiders (payables to suppliers less receivables from customers) as a % of its shareholder's equity. This ratio is measure of financial risk or leverage. If the debt to equity ratio is less than 1.0, then the firm is generally less risky than firms whose debt to equity ratio is greater than 1.0.
3. **Market Valuation of an Organization:** Company's overall market value is in multiples of company's annual net profit. This could be calculated by company's share valuation if it is a listed company or offers for buying the company received from other investors. Example if company's annual net profit is AED 100 Million and company's market value is AED 1 Billion then "This Multiple" is 10 times. **Higher this multiple better for an organization & its shareholders.** This is +ve perception of investors.

Primary & Financial Objectives of various functions to improve financial health of an organization

Function	Primary Objective of the function aligned to Financial Objective	Impact on company's financial health
Sales	1. To maximize sales of products & services against sales budget (Quantity & Value) 2. Maximize average selling price to maximize overall company profitability 3. Achieve favourable payment terms to an organization meeting cash flow & interest cost.	Maintain or improve sales revenue, interest cost, cash flow position and overall profitability.
Distribution	Maximizing product & service delivery as per customer orders so that sales invoicing is done on time. Minimize accidents to save on insurance costs	Timely sales invoicing to ensure receiving payments on time
Procurement	Buy materials & services at minimum cost & at good payment terms & receive devieries on time	Reduce material costs, interest cost & improve profitability
Manufacturing	Maximizing production quantity & quality and minimizing cost of materials, manpower, machine or equipment, energy (electricity, oil, gas, water) used per unit of production.	Maximize production to be able to deliver & invoice to customers as per agreement. Reduce all expenses. Improve profits.
Accounts Receivable	Ensuring timely collections of the receivables from customers prior to agreed payment terms with them	Reduce financial risk and save interest cost
Accounts Payable	Ensuring timely payment to all i.e. suppliers, employees, government agencies, shareholders	Maintain company's image and loyalty of suppliers and employees
Treasury	Arrange sufficient funds on time as per business requirements (CAPEX & OPEX) at a lowest cost to the company with minimum guarantees given	Ensure money for smooth operations and future growth of an organization. Save financing costs.

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