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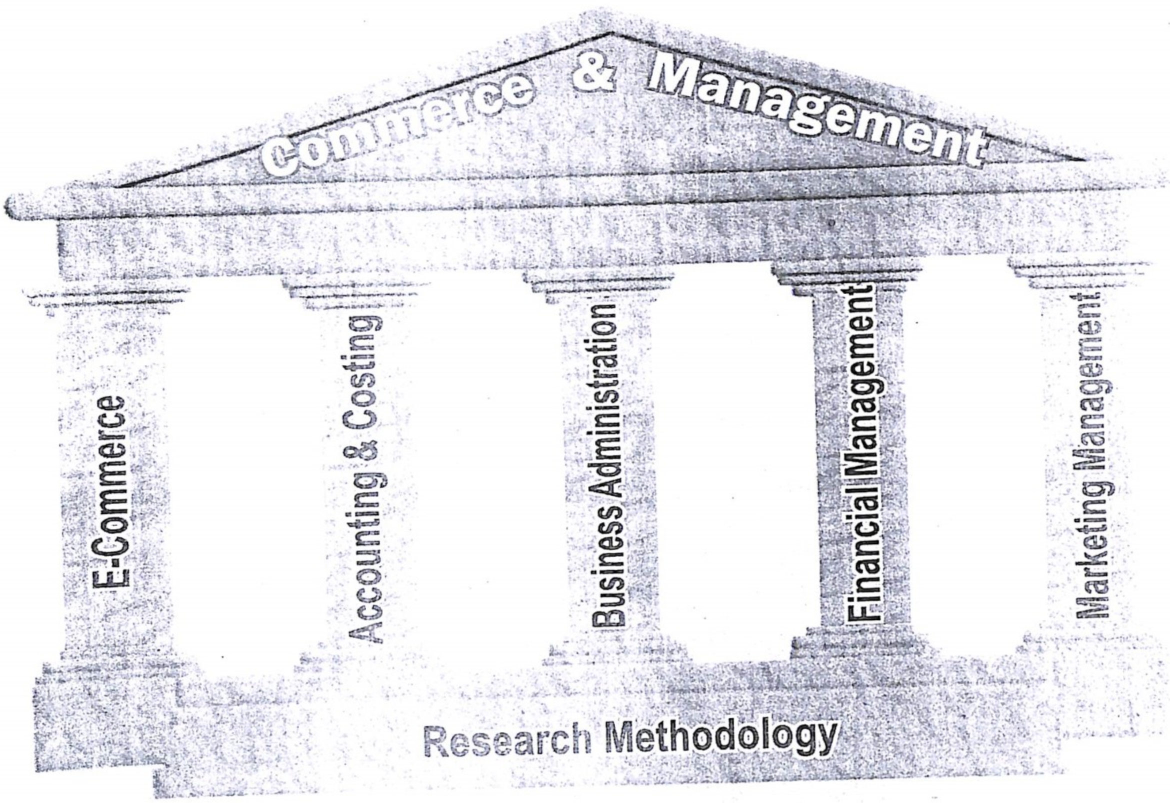
PROCEEDING

OF

National Level Conference on

"Emerging Issues and Challenges in Commerce & Management"



Organized by

Department of Commerce

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Prof. Nagpure V. B.

Rayat Shikshan Sanstha's

Bharatratna Dr. Babasaheb Ambedkar College,

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Financial Management and Its Features

Prof. Nagpure V. B.

Abstract:

The present paper examines Financial Management and Its Features on productivity of trade ventures. Equally primary as well as secondary facts are unruffled from various trade ventures. Analysis of the composed data provided that; profitability is considerably affected by efficiency in economic management practices such as accounting, reporting, & analysis, working capital management, fixed asset management and economic planning and financial characteristics such as current ratio and liability relation. As a result, in order to amplify productivity, the researchers suggest that commerce enterprises should incessantly progress their financial management practices as well as economic features.

Keywords: Trade Enterprises, Financial Management Financial features, productivity

Introduction:

The present study deals with Financial Management and Its Features, which is one of the numerous practical areas of management but it is the center to the achievement of any business. Unproductive financial management, shared with the indecision of the trade surroundings frequently led Business Enterprises to serious troubles. One of the famous scholars, Kawame says that casual financial administration practices are the chief cause of breakdown for trade enterprises. As a result, a trade organization's productivity might be damaged. This is because their ineffective financial administration. Business Enterprises have often unsuccessful due to need of information of well-organized financial management. Furthermore, the ambiguity of the commerce situation causes commerce Enterprises to rely extremely on fairness and preserve elevated liquidity and these economic characteristics influence productivity.

Since, the Ethiopian People Revolutionary Democratic Front (EPRDF) guide administration introduced a sequence of economic reforms in 1992; the personal segment in Ethiopia has rapidly full-grown in terms of the number of businesses, assets and employees. The number of private businesses as well as limited companies has rapidly increased and the majorities are

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micro, small and middle enterprises. These trade Enterprises have contributed significantly to increasing GDP as well as creating jobs for labor-age citizens.

Specific Areas of Financial Management Practices:

The researchers go toward the precise areas of financial management in dissimilar ways depending upon their emphasis. Walker and Petty as cited by Kieu (2004) defined the major areas of financial administration containing economic planning, investment decision-making, working assets management and sources of financing. Chung & Chuang ordered financial management perform in to the following five specific areas: Capital structure management, working capital management, financial reporting and analysis, capital budgeting and accounting information structure. Usually, from the over and further literatures, it is possible to recognize four main areas of financial management practices.

1. Financial A/c., Reporting and study: these comprise the nature as well as rationale of financial records, bookkeeping, cost accounting, and use of computers in economic record keeping, the nature, occurrence and purpose of financial treatment, auditing, study and understanding of financial presentation.

2. Working Capital Management: Working capital management involves managing the level and financing of the firm's asset in current assets, which includes money, marketable securities, accounts receivable as well as account. It is a policy focusing on maintaining resourceful levels of both components of working capital, current assets and current liabilities, in respect to each other.

3. Capital budgeting Management: Unlike working capital choice, capital budgeting decision commits funds for a long term assets projects or fixed assets which have an impact on the company's strategic position.

4. Financial diagram and Control: this includes economic objectives and targets, cost-volume-profit analysis, pricing, short term economic budgeting and manage, and organization of responsibility centers. Financial management practice in this study has focused on these four major areas.

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Effect of Efficiency in Accounting, Reporting and Analysis Practice

Tourna and Germanos are studied about the role of accounting information on business strategy formulation in Greece. The study found out that, the use of accounting information system helped owners or managers to design and implement a strategic plan that will enable their business profitable in the long run. Kieu also found out that efficiency in accounting information system and financial reporting and analysis enhanced profitability. The efficiency of business organizations in this case was approximated by the on time and accurate recording and summarizing of business transactions, the frequency of preparing financial report and financial analysis, the degree of computerization of the accounting information system. In addition, different accounting and financial management books also confirm that good accounting, reporting and financial analysis practice enhance performance by helping decision makers design and implement wise and strategic decisions. From this, it is possible to formulate the following hypothesis

Effect of Working Capital Management on Profitability

In the study conducted in Belgium, Deloof found out that the way working capital is managed will have a significant impact on the profitability of a firm. Padachi investigated the relationship between profitability measured by return on assets and working capital management by taking 58 firms in Mauritius using panel data analysis for the period 1998 -2003. The regression result showed that high investment in inventories and receivables is associated with low profitability. Gill also studied 88 American firms and found out statistical significant relationship between cash conversion cycle and profitability. From this, the following hypothesis can be formulated.

Effect of Capital Budgeting Profitability

Capital budgeting decisions are critical to the success of any firm. Brigham & Ehrhardt argued that capital budgeting decision is vital to a firm's financial well being and are among the most important decisions that owners or managers of a firm must make. Their rationale for that belief is that capital budgeting decision often involves significant capital outlay to acquire fixed assets. Additionally, the acquisition of these assets often comes with long lasting and recurring financial enterprises. These trade Enterprises have contributed significantly to creating jobs for labor-age citizens.

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obligation. Furthermore, efficient utilization and control and management of acquired fixed assets are also equally important.

Effect of Financial Planning on Profitability

Companies typically prepare a wide array of plans and budgets. Some of which include sales plan, production plan, cost plan and expense budget and budgeted income statement and balance sheet. These budgets are very important to anticipate the future in advance. This will in turn help to minimize risks and because of the tradeoff between risk and return, profitability increases.

Effect of Financial Characteristics on Profitability

Liquidity measured by current ratio, leverage measured by debt ratio and business activity measured by total asset turnover ratio are the three independent financial characteristics used in this study.

Liquidity measured using current ratio refers to the relative proportion of current assets such as cash, receivables and inventories as compared to current liabilities. The greater the relative proportion of liquid assets, the less risk of running out of cash and profitability decrease, since these liquid assets become idle and do not earn any revenue. On the other hand, when liquidity of a firm is low, the risk is very high and profitability will increase because of the tradeoff between risk and profitability.

In physics, a lever is advice to increase force. In business financial leverage measured by Debt ratio is a device used to increase owners return. Higgins argued that the impact of financial leverage on return on equity depends on the size of return on investment and the after tax interest rate. Financial leverage measured by debt to total asset increases return on equity, when return on investment is greater than the after tax interest rate. When the return on investment is less than the after tax interest, increase in leverage reduces the return on equity. Therefore, leverage improves financial performance when things are going well but worsens performance when things are going poorly.

Many people believe that assets are good things: the more the better. The reality is just the opposite. Unless a company is about to go out of business, its value is in the income stream it

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generates and its assets are simply a necessary means to this end. In dead, the best possible company would be the one that produces income without any asset. Other things constant, financial performance improves as asset turnover rise. From the above discussion, the following three hypotheses can be formulated.

Concluding Remarks:

In finish, the experiential finding implies that factors of financial management are excellent tools for civilizing enterprise's productivity. This finding leads to the conclusion that the efficiency of financial management practices and features may bring regarding superior productivity. As a result, business organizations can improve profitability by raising the efficiency of financial management practices and characteristics. Sound financial management is essential to the achievement of trade organizations. Productively managing financial resources is significant in new as well as expanding trade. So time should be taken to develop and implement financial management practices that ensure success of business enterprises. In adding, a more comprehensive survey throughout the nation was suggested as a future study area to come up with nation level finish.

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