Financing and economic management

Financial management - principles and rules

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INVESTICE DO ROZVOJE VZDĚLÁVÁNÍ

Content:

1. Financing,
2. Financial objectives in the enterprise,
3. Principles of Financial Management,
4. Financial decisions,
5. Deciding on public finances - public choice.

1. Financing

Definition of Financing:

Financing is called obtaining (procurement), financial resources, generally capital in all its forms, and use them to procure the necessary assets to pay the expenditure of doing business (enterprise).

1. Financing

According to distinguish the regularity of financing:

1. Common financing,
2. Extraordinary financing.

1. Financing

According to the source of the financial resources:

1. Equity capital - (issue of shares or. Contributions in kind owners),

2. Foreign capital - (bank loans, bonds, deposits subscribers),

3. Self-financing - (profit, depreciation, financing of reserves, ...).

1. Financing

According to the time - Financing:

- ❑ Long-term (resource is equity capital long-term foreign capital, e.g. long-term bank credits, bonds)
- ❑ Short-term (resource of short-term bank credits, supplier credits, unpaid wages and tax evasion, etc.).

2. Financial objectives in the enterprise

Financial objectives (criteria):

are a crucial part of business objectives in the short and long term, are the criteria for deciding various alternatives and assessing the overall business efficiency.

2. Financial objectives in the enterprise

Financial objectives (criteria):

Profit maximization:

- static variable,
- need to use cash flows,
- profit maximization does not take into account the varying degree of risks to which the profit achieved.

2. Financial objectives in the enterprise

Financial objectives (criteria):

Solvency:

- Expresses its ability to cover its cash obligations in the amount and time required. Only enterprise able to pay its obligations creates conditions for the continued existence and conservation or increases its value.

2. Financial objectives in the enterprise

Financial objectives (criteria):

Maximizing the company's market value:

- At the profits generated can be seen as the amount that belongs to shareholders. The decision about how much to dividends and how much investment depends on the dividend policy.

2. Financial objectives in the enterprise

Financial objectives (criteria):

Maintaining the stability of the company, risk management:

- The financial stability of a company - can be expressed as raising capital for ordinary and extraordinary requirements and deciding on its structure, deciding on the location of the capital, distribution of profits and the management of the business.

- Economic and financial risks - risks affecting the economic results.

3. Principles of Financial Management

A. Cash flow – principle:

- financial management are important cash flows,
- the financial health of a business depends on its ability to reimburse the cash payments to its creditors, suppliers, employees and owners,
- enterprise that achieves high profits may not be able to pay its liabilities = **secondary insolvency**.

3. Principles of Financial Management

B. The principle of net present value:

- Calculation - the sum of the present (discounted) value of all cash flows of the investment.

- If the sum positive, investment evaluation can be taken. Conversely, if negative, it is an important argument for not taking rated investment

3. Principles of Financial Management

B. The principle of net present value:

$$NPV = \sum_{n=1}^{N} CI \frac{1}{(1+i)^{n}} - CE$$

NPV> 0 → investment is preferred ↑ MV firms

i - the required rate of return

n - number of years

CI – cash income

CE - capital expenditure

3. Principles of Financial Management

C. The principle of respecting the time factor:

one crown held today has more meaning than the same amount held tomorrow.

$$PV = FV \frac{1}{(1+i)^n}$$

→ FV = PV (1 + i) n

PV = present value

FV = future value

3. Principles of Financial Management

D. Taking into account the principle of risk:

Generally, the higher the risk, the manager should demand a greater return on investment. Enterprise should defend against risks by investing in different industries and in different markets - diversification of risk.

3. Principles of Financial Management

E. The principle of optimizing capital structure:

the company has to secure financing for their needs to ensure the optimal composition of capital. Financial management is ineffective if the enterprise overcapitalization, i.e. long-term financial resources enterprise funds short-term assets.

3. Principles of Financial Management

F. The principle of matching the level of efficiency of the capital market:

- understanding the nature of the capital market and its effectiveness.

Three degrees of effectiveness:

- highly effective,
- medium effective,
- inefficient.

3. Principles of Financial Management

G. The principle of planning and analysis of financial data:

- a necessary condition for the achievement of corporate goals is constantly planning and analysis of financial variables.

Financial analysis.

Financial Planning.

3. Principles of Financial Management

Financial management:

- financial resources for the establishment and development of the company,
- optimal capital structure,
- financing and management of current assets,
- selection of the optimal form of long-term financing,
- financial analysis,
- financial planning, etc.

4. Financial decisions

Definitions of financial decision-making:

- Financial decisions is a process that select the optimal obtain funds, corporate capital and their use in terms of the fundamental objectives of business and the limiting conditions.

4. Financial decisions

Phase financial decisions:

- ✓ defining financial problem
- ✓ setting financial objectives,
- ✓ collection and analysis of information and documents,
- ✓ choice of different options.

4. Financial decisions

Financial decision making - basic rules:

- ✓ at greater risk demand a higher yield,
- ✓ always prefer a larger income before income less,
- ✓ always prefer less risk from the risk of larger,
- ✓ always prefer money received earlier before the money received later,
- ✓ take into account the level of risk,
- ✓ motivation is to increase corporate property,
- ✓ operatively - criteria money and liquidity.

4. Financial decisions

<u>The most important types of decision situations in the field of corporate finance are:</u>

a) strategic (long-term) financial decisions,

b) tactical (short-term) financial decisions.

4. Financial decisions

Factors influencing financial decisions:

a) yield,

b) the time,

c) risk.

This creates *magic triangle.*

5. Deciding on public finances - public choice

Public choice theory deals with the public and decision-making mechanisms.

<u>Public choice is decided:</u>

- the extent to which the state may intervene in a market economy,
- what tools to apply,
- the size of the public sector,
- about the structure.

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5. Deciding on public finances - public choice

In public choice have four entities:

1) decision-making subject
2) target group,
3) executors of decisions,
4) hide players.

5. Deciding on public finances - public choice

What maximizing politicians?

Economic theory understands the motivation of politicians simply as an effort to maintain the privileged position of power and a consequential motivation "to please voters, respectively some of their groups.

5. Deciding on public finances - public choice

The bureaucracy

For each state measures decided by politicians through democratic processes and implemented by state officials - bureaucracy. The success of state intervention is closely linked to its competence, performance and motivation.

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5. Deciding on public finances - public choice

Interest Groups

Interest groups attempt to reduce the "costs" associated with the choice of voters and gathering information, especially to reduce the cost of those voters who are likely to be given interest group support. In addition, interest groups trying to mediate information about the preferences of politicians to their voters.

Keywords:
Financing, financial goals, and principles of financial management, financial decision making, public choice.

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List of tasks for students:

1) Explain the nature and content aspect of financing.

2) Characterize financial objectives.

3) Explain the principles of financial management.

4) Define the financial decisions. What do you know phases and types of financial decisions.

5) Explain decisions on public expenditure in public choice.

6) Characterize the other subjects in decision-making in public choice.