Financial practice for effective management essay

Business, Accounting

IntroductionThis paper evaluates the operations of Scopio Telecommunication with a view of synthesizing these operations and proposing on the way forward. It looks at the way the finances of Scopio are handled in terms of budgeting and expenditure. It is very crucial for a company to ensure that its performance is always at the peak.

This can only be attained when Scopio has sound finances to see it through administration expenses, overheads and advertisement in the rigorous telecommunication market. It is therefore essential to plan, budget and spend the cash in the company in a planned or projected way to ensure that all the expenses are met and the profits acquired are reinvested to ensure that the firm is ever growing to meet the ever growing demands in the telecommunication industry. Organizational Profile Scopio Telecommunication is a dealer of Safaricom Ltd, the leading mobile service provider in Kenya. Scopio, was established in 2000, and created sub- dealers across the country, Kenya.

As a dealer, the Scopio offers services which reflect those of Safaricom. Scopio pursues mutually beneficial relationship with Safaricom and other vendors. Their business exists to serve customers. For them to carry out this mission, they work with and rely upon their net-work of sub dealers. Their main business sales and services include, selling of scratch cards (air time top up cards), selling of mobile phones and their accessories, and sell of computer accessories. The company also offers customer care services on Safaricom products; these services include, updating of the customers on the new and existing products in the markets they operate in.

The department that is focused on is the financial department. At Scopio, the financial department is synchronized to ensure that cash flows – liquidity in the company through out its branches is sufficient. The studying of the financial documents at the finance department in essence reflects the company’s performance.

MethodologyThe aim of this paper is to endeavor to evaluate the financial status of Scopio focusing on the past and current financial positions and the company’s performance. The information gathered from the financial statements and cash flow statements are the ones that provide the basis of the information analyzed. The main information is from the annual prospectus publicly released and their financial update magazine. A series of financial analysis tools were used that is from ratio analysis to variance analysis and financial modeling techniques. Additional forecasting methods were used such as expert’s consultations and moving averages to determine a forecasting model for projected statement. Both the primary and secondary data were used such as the financial documents of the company.

The company’s employees were resourceful – they were selected through random selection. Financial planning and controlThe financials in this company are controlled at various levels. Most of the products are purchased from Safaricom, who are their main partners. There is the financial director who ensures that the running capital flows through the entire sub branches.

The financial director makes a plan for all the sub-branches and follows up the plans to the letter. All the sub branches are headed by account managers who report to the financial director. The assignment will focus on the financial directors department. The financial director's department plans and controls all the revenue Scorpio's get. The department plans the budget, and forecasts the expenditure over a specific period. It is through this rigorous planning that the company strategises on what to invest in and which areas to cut cost in.

This has enabled the company to employ only relevant (those who are productive) employees and retrench those who can be done away with. It is very important for the finance department to manage finances effectively since if they do not do this, the company will automatically collapse. The financial director of the company in this case coordinates with the human resource department before they approve of any recruitment. The finance department has also established a risk management unit that ensures that the company minimizes the risks they take in their investment. In this breath, the company has invested its profits in stock market; therefore the need for experts is indispensable due to the volatility of the stock market. In essence, effective planning and budgeting leads to results which trickle down to workers who are essentially motivated with salary hikes and thus good performance of the company.

The financial department is limited to the funds that are available due to the stringent budget and approval done by the board of directors. The company does not get any external funding unless they are loaned by its bank. Information Communication Technology (ICT) has made financial management to be easier. The branch accountants communicate with the main office by a simple click of a button.

Also, most of the transactions are done on line and this makes it easier to pay for products and services. The company has an aim on revamping the information communication department in terms of man power and modern technologies. Financial positionSummary Financial statementsProfit & loss2007MarchSales$9. 91mCost of sales$6.

91mGross profit$3. 00mOther operating income/ (expenses)$0. 03mSelling expenses$0. 59mAdministrative expenses$1.

33mOperating profit$1. 11mFinance (costs)/ income$0. 07mProfit before income tax$1. 04mIncome tax expenses$0. 32mNet profit for the year/period$0. 72mDividends paid-Balance sheetCapital employed2006Share capital$2. 10Retained earnings$1. 38Share holder's funds$3.

48Non-current liabilities$1. 08$4. 56Non-current assetsProperty, and equipment$1. 09mDeferred income tax asset$0. 32mRetirement benefit asset$0.

12m$1. 53mCurrent assetsInventories$5. 26mReceivables and repayments$1. 42mCash and bank balances$0. 03m$6. 71mCurrent liabilitiesPayables and accrued expenses$1.

45mCurrent income tax-Borrowings$2. 23m$3. 68mNet current assets$3. 03m$4. 56mCash flow statement2006Operating activitiesCash generated from operations$1. 37mInterest received-Interest paid$0. 13mIncome tax paid$0. 57mNet cash generated from operating activities$0.

67mInvesting activitiesPurchase of properties and equipment$0. 25mProceeds from disposal of properties and equipment$0. 02mNet cash used in investing activities$0. 23mFinance activitiesDividends paid-Net cash used in financing activities-Decrease in cash and cash equivalent$0. 44mCash and cash equivalentAt start of year/ period$2. 64mAt end of year /period$2. 22mBudget 2006Sales$20. 63mCost of sales$15.

00mGross profit$5. 63mOther operating income$2. 1mSelling expenses$1. 07mAdministration expenses$2. 45mOperating profit$2. 32mFinance cost$0.

20mOperating profit$2. 12mIncome tax expense$0. 66mProfit for the year/period$1. 46mDividends$1.

10mIn achieving the company's target the company is planning to put in place another lot of sub dealers so that it can increase the sales of the telephone air time cards. This will see the increase of the administrative expenses though it is projected to have an almost immediate return. The company also is planning to expand on the sale of mobile phone hand sets. In addition, the company has the strategy of launching an aggressive marketing, which will see the financial department pumping in extra funds. The finance department is also planning to revamp its ICT department so that its communication to partners can be more effective thus enabling more business to be done. The company was unable to give its shareholders dividends since its projected profits did not come nearer to the real profit of the period studied. The variation comes about since the profits were reduced by the increased expenditure in the administration and buying of properties.

This is equally a worthwhile investment since it will yield returns in the near future.

To sustain the fluidity of the company the company ought to diversify. As per the current time the company entirely relies on sales of mobile airtime, a business that has been infiltrated with many companies in the region. The budget projects the sales to bring about $20.

63million but in the real profit and loss statement the sales were $9. 19m. This variation came about due to lack of aggressive marketing of the firm, which led to fewer sales of the products. The sales on mobile phones was at an all time low thus bringing this variation due to lack of stocking the company's shops with the latest hand sets.

This is a lesson to the company such that it has to embrace the changing trends of the mobile handsets that come into the market. Administrative expenses were equally low that is, $1. 33million compared to the projected expenses of $2. 45million. This variation is attributed to lack of implementation of the projected expansion of one of the new sub branches which was to be set up. It can be realized that this in essence affected the total revenue projected vis-à-vis the revenue that was attained.

The resulting low profits impacts the future investment by limiting them. The dismal returns also affected the shareholders by not enabling them to be paid dividends but as seen, at the end of the year the share holders will probably get dividends. Financial performanceThe financial performance of Scorpio is evaluate by looking at the financial statements of 2005 vs.

2006Profit & loss account 2005 vs. 200620052006MarchSales$ 22. 45m$9. 91mCost of sales$16.

01m$6. 91mGross profit$6. 44m$3. 00mOther operating income/ (expenses) $0.

03m$0. 03mSelling expenses$1. 37m$0. 59mAdministrative expenses$2. 30m$1. 33mOperating profit$2. 80m$1. 11mFinance (costs)/ income$0.

11$0. 07mProfit before income tax$2. 69m$1.

04mIncome tax expenses$0. 82m$0. 32mNet profit for the year/period$1. 87m$0.

72mDividends paid$1. 55m- Balance sheet 2005 vs. 2006Capital employed20052006MarchShare capital$2. 10m$2.

10mRetained earnings$0. 67m$1. 38mShare holder’s funds$2. 77m$3. 48mNon-current liabilities$1. 00m$1. 08m$3. 77m$4.

56mNon-current assets20052006MarchProperty, and equipment$0. 96$1. 09mDeferred income tax asset$0. 32m$0. 32mRetirement benefit asset$0. 12m$0.

12m$1. 40m$1. 53mCurrent assets20052006MarchInventories$5. 16m$5. 26mReceivables and repayments$1.

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78$6. 71mCurrent liabilities20052006MarchPayables and accrued expenses$1. 66m$1. 45mCurrent income tax$0. 09m-Borrowings$2. 66m$2.

23m$4. 44m$3. 68mNet current assets$2. 37m$3. 03m$3. 77m$4.

56mCash flow statement20052006MarchOperating activitiesCash generated from operations$2. 8m$1. 37mInterest received–Interest paid$0. 22m$0. 13mIncome tax paid$0.

87m$0. 57mNet cash generated from operating activities$1. 19m$0. 67mInvesting activitiesPurchase of properties and equipment$0. 28m$0. 25mProceeds from disposal of properties and equipment$0. 01m$0.

02mNet cash used in investing activities$0. 17m$0. 23mFinance activitiesDividends paid$1.

55m-Net cash used in financing activities$1. 55m-Decrease in cash and cash equivalent$0. 06m$0.

44mCash and cash equivalentAt start of year/ period$2. 01m$2. 64mAt end of year /period$2. 64m$2. 22mIn essence the company, previously and currently manifests the ability to adapt to changes in the market and still remain profitable. This has been realized from its ability to continue getting profit regardless of new entries in the market who offers competitive prices to their products. It has equally demonstrated effective management of its operating expenses thus showing the fluidity of the finance department of the company.

In addition, the assets of the company have been growing over the years, showing that the company has at least a profit to invest. The company therefore can be said to be financially stable currently. The projection of the next financial period which is in 2007 is as follows: Sales$2. 72mCost of sales$2. 006mGross profit$7.

14mOther operating income$0. 04mSelling expenses$1. 38mAdministrative expenses$2.

99mOperating profit$2. 81mFinance cost$0. 29mOperating profit$2.

52mIncome tax expense$0. 77mProfit for the year/period$1. 75mDividends$1. 31mThe planned activities that will lead to these progressive results include the opening of the new branches and diversification by introduction of other electronic goods mentioned elsewhere in this paper. This will probably impact the company positively and leaving it with extra money to invest in other projects.

If the two strategies are effectively implemented, then it is an open secret that the company will increase its profit and of course the shareholders will get higher dividends which will be a motivating factor. Capital investment proposalCapital investment proposalThe firm is required to continue improving on existing products and introduce new ones. The firm is in this sense advised to diversify by investing in other products.

Since the firm already sells, mobile phones and computer accessories, the other investment on electronic products can be viable. This is proposed because of the stiff competition that is in the telecommunication that may lead to the company going out of business if it does not diversify. Another investment that should be done is on the employee training. This will essentially enable the employees to develop the goals of the company and will see them being motivated intrinsically. As a matter of fact, an educated employee is an asset to the company. With the growing demand of electronic goods, the introduction of electronic goods will give Scopio a good return. The electronic goods that should be targeted in this case are; television sets, DVDs, and stereo systems. This investment has a likelihood of bringing a good return because of the provision for a reduced tax on these products by the government and lack of vigorous competition in the market.

Apparently the most conducive way of investing in this investment is by doing it gradually so that Scopio can avoid financial constrains that can emanate from diversification. Since it has several branches, Scopio can start with one branch; so that the reality in the market can be felt before the investment can be done overboard. The investment is estimated to cost $0. 5m. The funds will be from the profits gotten from the company's profit. The returns are projected to double the investment cost after which will be a worthwhile course for Scopio telecommunication. Financial processes and protocolScorpio Telecommunication has a structure, which has a managing director who over sees the running of all the branches. Then we have the human resource manager, and finance director and the Information Technology (IT) manager.

The human resource manager ensures that all the staffs are qualified to do the jobs that they are allocated. It is the responsibility of the human resource manager to know when more manpower is needed, the terms on which to recruit the employees. The IT manager’s role is to ensure that the system works to avoid unnecessary breakdowns, which might lead to lose of business. The finance director’s job is to ensure that the company always has a running capital in all the branches. He foresees the company’s finances and makes a budget from it.

He equally ensures that the accountants manage the company’s money in the correct way. Compared to other companies who have a different structure, Scorpio’s processes are easily managed by consistent communication through all the departments. Other companies have different structures whereby; others do not have a formal structure as that of Scorpio. They have in formal set-ups where the goals of the organization are not clear to the employees but only to the manager or the owner. Other companies have a structure whereby they focus on relationship that defines employees’ expectations. In other companies senior managers are the only people that make decisions unlike Scorpio where decisions are delegated to the juniors in the branches level. These companies use communication channel and structure where each individual’s role is defined.

For instance the companies have a hierarchy that command and control the organization. The advantage of this is of course is the defined responsibilities and availability of specialist managers. This makes the employees to very loyal to their organization. Scorpio does not take this structure that might be bureaucratic. This might work to the detrimental of the organization since the telecommunication industry is very dynamic and having a bureaucratic way of doing things will take time for change to be implemented.

Scorpio's communication is synchronized from the managing director to the employees in terms of the communication channels unlike other companies where communication across various sections is poor. Also other companies' exhibit departments that make decisions that benefit them forgetting the goals of the entire company. So the Scorpio structure is suited for the nature of business that they do. The recommended protocol of handling the financial processes is the one that will ensure that each department has its share of the finances allocated to it. This should be reflected in the budget projecting the highest limit of amount expected to be allotted to each department. Other companies need various managers at different levels. For instance, under finance department there are managers, who handle; risk management, investment, and debt collection. This can be attributed to the size of the company.

For a company to be fluid in its finances, it has to synchronize its financial department at all levels. List of ReferencesArmstrong, M. (1999). How to be an even better Manager. London: Biddles Limited.

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