Long-term financial management report

Business, Company

In the sector of financial management, long-term financial management is the act obtaining funds from financial institutions to be refunded after a long duration of time, preferably a year. Both individuals and organizations should develop long-term plans to achieve their strategic objectives, ensure financial sustainability, avoid bankruptcy, maximize revenue and avoid petty financial distresses. There exists an unequivocal relationship between long-term goals, investments, and the required finance.

A long-term financial strategy influences the internal and external structures of any organization. For instance, the strategic planning of the organization should go in hand with its long-term financial plan. Communication strategy and policy decisions are also impacted. Long-term financial management assists in establishing the strategic direction to handle future funding and investment challenges. With this plan, both individuals and companies can develop their growth capacity and increase range of products. They too can maintain a low debt profile and ensure that their operating statements surpluses are achieved as well as grant funding for strategic capital funds from the government.

Long-term financial management focuses on the bigger picture. Under this program, investment decisions are made by determining the amount and type of asset the particular organization requires. Because investing is part of the long-term financial plan of a firm that aids in bringing in cash, the financial manager is usually involved in the process of managing and planning for the long-term investments of a firm. According to Brigham et al. (2010), the decisions made should aim at saving money as well as creating profits and revenues. Before a company decides to invest in the long-term financial management, they should be able to determine the type of business to be acquired, and the kind of equipment to be used.

Because firms usually have many potential projects, capital budgeting is used to rank projects to determine which ones could be financially rewarding. The process of capital budgeting is needed because once long-term investments have been made they cannot be reverted. Hence, the loss can be huge. In addition, huge sums of money are used for the investments influencing the profitability of the organization ensuring an adequate rate of return on investments.

Long-term investment decisions have long-term effects compared to short-term ones. Techniques used in capital budgeting include the net present value that is the total value of all cash inflow and outflow over a period. Profitability index which is used in the ranking of projects and payback periods which is the amount of time required to reach the break-even point according to Bhat,(2011). It is seen that long-term financial management is important in ensuring that both individuals and firms meet their goals, and resources are utilized properly for future generations.

References

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