

Fundamentals of finance

[Finance](#)



In the department I work, there are many functions involved which deal directly or indirectly with finance and perform an entire gamut of financial activities from revenue recognition to financial reporting for the business. The various processes in my department support the business in terms of Accounts Receivable, Accounts Payable, Goods Receipt, planning and forecasting financial data related to specific projects. The financial analysts in my department assist the business by informing them on financial status of a project.

One important function the analysts are responsible for is ensuring the billing due is followed up and gets reflected in consolidated monthly statements. This helps the business in determining the current status of our Accounts receivable and forecast the cash flow. They also serve as internal auditors for SOX compliance. From a SOX perspective their individual responsibilities include whether all the criteria for order acceptance and revenue recognition has been met.

In case any of the criteria for revenue recognition has not been met, they are the responsible for revenue deferrals and subsequent debooking, if necessary. In light of regulatory compliance issues among companies, I have found this department to perform a very valuable role not only in terms of finance but also in legal compliance. This responsibility helps the managers to have a snapshot of the organizational compliance. Another process which performs a vital role from a corporate finance standpoint is the team responsible for invoicing.

They ensure that customers are billed as per the payment plan and the same gets reflected in the company's P&L sheet. This helps the company to keep

track of the receivables and whether the company is maintaining a positive cash flow. The invoice team coordinates closely with the goods receipt team who are responsible for vendor payments. These teams together help the Finance Controller and Finance Director ascertain the gap between receivables and payables.

Finally the financial reporting team plays a pivotal role in producing reports which encompasses P&L reports, Aged Receivables, Actual vs forecast revenue reports, cost vs revenue reports and so on. They work on Business Intelligence platform where all these reports can be generated and analyzed for management purview. From an organization structure perspective these functions report to a Finance Controller, who in turn reports to Director of Finance. Response to Posts: Response 1: (Post from Alex) Good Morning Alex,

The fact that you run a small business does invite risks of its own when compared with corporations where the liability is limited. I believe understanding of finance from corporate standpoint will give you an insight into the way Profit & Loss is managed and adopt some of the ideas. I am of the opinion that the small businesses tend to gain when they are comfortable with concepts like engagement margin, gross margins, operational expenses and other overhead, EBIDTA (Earning before interest, depreciation, tax and amortization) and PAT (profit after taxes).

I think if you were to compare yourself as owner entire stock of the business and analyze trendline of your EPS (earnings per share), you would gain an insight into the financial performance of your business. To conclude it would really be beneficial to gain a fundamental understanding of finance, which <https://assignbuster.com/fundamentals-of-finance/>

may help SMB (Small & Medium Businesses) to enhance their bottom line growth. Response 2: (Post from Janet) Auditing through an external agency is a good thing when we realize the importance of compliance for publicly traded companies. I do believe that an internal business controls mechanism will also be of immense help.

An internal audit group has an opportunity to look at the compliance of other departments objectively and thus ensure full compliance in the external audit as well. In my experience I have found that compliance issues tend to arise as people are not made aware of the impact non-compliance has. We have an internal audit who reports directly to a compliance officer and hence can audit objectively. This has helped my department in bringing down the number of business controls tested red and thereby reduced our fiscal liability as well. This has proved especially crucial in a vendor management process.

Conclusion: It is imperative that managers in businesses not dealing with Finance also gain a basic understanding of financial activities of a firm. Finance is considered as an arcane field but the fundamental are simpler to learn and will help everybody who is supporting the business. References
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