The roles of financial information in business strategies accounting essay

Business, Accounting

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Executive Summary

We are discussed in these assignments different roles of financial information in the different business strategies. This report aims is to identify the different roles of finance in the different business strategies, analyze the published accounts which help them in the strategic decision making through different financial information and financial ratios. With this report, we can easily access business and finance investment and working capital through its long term and short term financial resources. We are explain in this assignments about profit and loss and balance sheets .

Strategic Management

Strategy refers to the top level management plans to attain the outcomes related with the organization mission and different goals (Peter Wright). Strategic management is a broader term that encompasses managing not

only the different stages but also used these stages in the achievement of the organization different missions and goals in the external and internal environment (Mark J. Kroll).

Strategic Decision Making

In the general information strategy is defined as long term direction of the all the businesses. It involves the long term directions and scope of the company to gain the different missions and goals with the changing environment for the fulfilment of all stakeholders' potential and aspirations.

Roles of Financial information in business strategies

In every business, financial information plays the huge role in making the profits and reduces the overhead costs and reduces the risk of loss. No financial strategies means that strategies for failure. Recently study of the Price water house coopers told that finance now become the big responsibility for every business or become the key strategic business partners which helps partners in assisting in decision making. According to Elizabeth Harrin (London), finance function acts as support group for the every CEO and in business process. From the finance effectiveness benchmark study, CFO or Chief Financial Officers have very tough job to do like motivating the team as they will come out from the recession, help in running the division efficiently and make big strategic business decision which is helpful for his or her business in the coming future. Finance deals as important role for all company even for The organization also because it has to do all things with the business funds. There are different roles of financial information in the business strategies which are as follows: Money

Administration: Money management is the way to identify that how the organization can make less expenses and make more profits. By performing the different financial strategies, executive of the finance department analyze the financial sense of business and ensure the smart money management. Cutting in the internal costs will help finance department to increase in generating the more and more revenue. Financial Scheduling: In every business, finance department create budget for their financial planning strategies. In every organization, finance department generate cash budgets, capital budgets and operating budgets. Financial planning is instrument which helps in maximizing the profits and makes the help for the owner of the business to invest money in the different projects through loan or available cash. Financial Forecasting: Every business success is always depending on the financial forecasting, (Harvard University financial forecasting policy). Financial forecasting means that predicts the financial goals in the coming future and check the performance in the coming future. Only business finance can be responsible for the financial forecasting which relates the sales volume, capital expenses, staffing resources etc. Financial forecasting helps in the prediction or estimation of the budget of a particular company, how to allocate the funds in different projects and how can they reduce the internal cost. Financial Strategies: In the article of Business Finance Magazine, 2005, most of the businessman like CFO’s has less concentration on the business finance. They have more concentration on the different strategic planning which helps them in making more profit. These Financial strategies have more important for business because these strategies show the path to reach to their financial goals. Without these

financial strategies no business can grow in the today worlds. So, we can easily say that without financial strategies means that strategies for failure.

Analyze published financial statements for strategic decision making purposes:

The main purposes of building the published account in The Organizations Company are as follows: Published account used by different banks which is connected with the company or lenders to formulate the creditworthiness of the organization. Published account is also used by the investors of the Organizations Company; this will help them to invest monetary terms in the company. It is also used for checking the performance of the business. The profit and loss statement:- the profit and loss statement is designed to overcome the limitations of a cash flow statement, although cash has the important characteristics of complete objectivity. Cash flows can be observed, measured and verified. Profit measures are subjective. Trading profit and loss figures20102011Sales600, 000570, 00Cost of sales440, 000450, 000Gross profit160, 000120, 000Expenses105, 00088, 000Net profit55, 0032, 000

Balance sheet:-

The report that shows the capital base of a business is the balance sheet. The Castle Nursing Home PLC balance sheet for 2010 and 2011 is shown in the next instalment of the case study.

Balance sheet figures:-

20102011Fixed assets190, 000120, 000Current assets300, 000173, 500Stock140, 00075, 00Current liabilities131, 000151, 000Working

capital169, 00022, 500Net current assets359, 000142, 500The balance sheet reveals two separate but related aspects of the business. First it shows the fixed and current assets of the business. These include the physical resources such as property, building, machinery etc. the other dimension is the sources of the finance that have enabled the business to acquire its assets. Let us now analyze and interpret accounts of Company with the help of ratios:-

Profitability ratios2

Profitability ratio helps us to know the firm's ability to make profits. This ratio is calculated by dividing net profit with company's total sales. Calculation of profitability ratio of corporation for the year 2011 and 2010 are shown below. Gross profit ratio = Gross profit / Sales * 100

Year2

Gross2 Profit2

Sales2

Gross2 Profit2 Ratio2

20102

160, 000600, 00026. 67%

20112

120, 000570, 00021. 05%Net profit ratio = Net profit / Sales * 100

Liquidity2

Liquidity ratio helps a company to know what their liabilities are and what their assets are. With the knowledge of these two a company can easily convert its current assets into cash and write off its current liabilities (short term debts) with this cash. Current ratio= current assets/current liabilities

Year2

Current2 Assets2

Current2 Liabilities2

Current2 ratio2

20102

300, 000131, 0002. 29

2011

173, 500151, 0001. 149Working2 Capital2 = current Assets2 – Current Liabilities2

Year2

Current2 Assets2

Current2 Liabilities2

Working2 Capital2

20102

300, 000131, 000169000

20112

173, 500151, 0001584000The above result shows that company has borrowed long term debt due to which there is an increase in current assets with a slight effect on current liability

Gearing2

Gearing ratio shows the amount of capital available with the organization in relation to the amount the company has borrowed or has to pay to the sources outside the organizationTotal2 Debt/

Gearing2 Ratio2 = ----------------------

Total2 Equity2

WAYS FOR THE COMPANY TO DECIDE WHETHER TO MAKE NEW INVESTMENTS

There are basically many ways for a company to decide whether to make new investments or no but the most important method used by the company in order to make an investment decision is: Net present valuePayback periodInternal rate of returnAverage rate of return

NPV

Net present value helps a company to decide whether to make an investment in particular project or no. NPV helps us to know how much profit a company can earn on a particular investment within a period of time. It also tells us will the project chosen for investing would be profitable in future or would be a loss for the company. Basically NPV helps a company to take a right decision for investing their money so that they can reap the benefits of

considerable amount of profitThe below calculation will explain you how to calculate the net present value of an investment

"

Net Present Value Formula" NPV helps to decide investments present value with the help of the discounted summation of all the cash flows obtained from the project. Formula for discounted sum of all cash flows can be written asNet Present Value Alternative Formula " When an organization thinks of investing in a project they calculate the profitability of the investment, in the above formula,-C0 = initial investment, is a negative cash flow which shows that money are going out of the company rather than money coming in. therefore, the NPV value must be positive value so as to consider this investment as a valuable investment.

Payback period

One of the other methods which a company can use in order to decide whether to make new investment or no is payback period. This method helps a company to find out whether a project is worthwhile for making investment. Payback period means the span necessary to get back the total amount invested in a particular project. The superior investment is that which takes less time to payback the investment done. Payback period of a project is calculated by the following formula given below" Payback periodPayback Period " Before making an investment the first thing the company thinks how soon the company will receive the money invested. The sooner the company gets the amount invested the better is the project in which the investment is done. Internal rate of return: (IRR): one of the other

methods which a company can use in order to decide whether to make new investment or no is internal rate of return this method compares and assesses different investment on the basis of their cash flow. An appropriate IRR calculation gives an interest rate which is equal to the totality gains estimated from the given investment. In this method the internal rate of return of all projects are calculated and compared by each other to find out which investment is more valuable

Now let us see the " internal rate of return formula¶

The internal rate of return formula can be found algebraically by using the Net Present Value formula below. In this: NPV = (CF 1 / (1 + r) ^1) + (CF 2 / (1 + r)^2) + (CF 3 / (1 + r) ^ 3) + ... Where: NPV = Net Present ValueCF 1, 2, or 3 = Cash flow in period 1, Cash flow in period 2, Cash flow in period 3, etc. r = The Rate of ReturnThe rate of return (r) for which NPV = 0 is the internal rate of return calculator. So, if: 0 = (Cash flow in period 1 / (1 + IRR) ^1) + (Cash flow in period 2 / (1 + IRR)^2) + (Cash flow in period 3 / (1 + IRR) ^ 3) + ... Where: NPV = Net Present ValueCF 1, 2, or 3 = Cash flow in period 1, Cash flow in period 2, Cash flow in period 3, etc. IRR = Internal Rate of Return" now let us understand with a help of an example how company uses IRR to make a decision whether to make a new investment or no

(d)Average rate of return (ARR)

ARR method is similar to payback method. This method uses net cash flows of the project for deciding whether the project is worthwhile to invest or no. Then it also measures the " average net return " every year in terms of percentage (%) of the initial or early cost of investment.

Long Term and Short Term Finance requirement:

Financial requirement of the Organizations as long term and short term developments are as follows: Short Term Finance requirement: Organizations has recognized five priorities for their business as short term and medium term strategies which are as follows: Agree re-financing arrangement: company has always in touch with the banks to maintain the headroom against banking covenants and placing refinancing facilities till December 2011. Investment following their eight power brands: In the investment of those eight brands they just want to their future growth of the business. Improving sales: With their short term trading actions, company will work more collaboratively with their consumer's associate to bring growth through much focused improvement and other brand building activities. Reducing size of group: In order to follows of their eight brands organizations also hunt for to organize of their business. Reduce their cost base: With the regular reducing in the cost, organizations exceed the cost cutback objective by 2011.

Techniques and importance of managing cash flow:

Cash flow statement is as important tools. It tells the business person, the changes of the cash like how much come inside and how much cash invest in project. It also gives the information about the business operating, investing and some finance activities for the advantage of short term analysis and cash planning of the business. The essential element of the cash flow statement is to provide the information about the business cash receipt and cash payment. According to accounting practices and policies, cash flow

statement as inflows and outflows of the cash and cash equivalents. So, cash activities basically divided into three factors which are operating activities, investing activities and financing activities. (K. A. Fareed)Cash flow statement can be prepared by the two methods, direct method and indirect method. Both of these methods have accepted by the accounting policies or UK GAAP. Both of method shows the same results but they have different format or different presentation views. In Cash flow statement, Balance sheet at the beginning and at the end of determined. Income statement provides the information about the operations of the different adjustments in the non cash items. For the analysis of the cash, cash flow statement is the better tools. It shows like the health or wealth and efficiency of the business entity. It is also enables the liquidity and solvency position of the business.

Roles of committee in the decision making of business structure:

There are different roles of committee authorized by the board are as follows: First role of owner and manager is that monitoring the financial reporting which includes the annual reports, some announcements could be preliminary or formal related with the financial performance of the company. Value of the group internal controls and risk management system. Regular updates on the whistle blowing categories. Regular check of internal audit report and remove any risk function which may reduce the profit of the company. Consider recommendations to the board on engagement and elimination of outside auditors include the setting of their remuneration. Evaluate the external auditor’s autonomy and independence and efficiency of the audit method. Expand and execute a policy on the commitment of

outside auditors to deliver non audit services and statement to the board matters recognized where action or development is required. Owner and managers also considered the different impact of the accounting issues which also include the accounting for group pension scheme. They also rolled out new anti corruption policy and some awareness program which help them to remove the corruption from the company. There are some other roles and responsibilities of the Board and their key members which are as follows:

Roles of Board

Setting the long term planning or strategies. Approving capital budgeting and annual report. Check the internal control system.

Deputy Chairman Roles

Deputy chairman is supporting the chairman in release his duties and take responsibilities in the absence of chairman

Chairman Roles

Providing the accurate information to their directors and effective communication with the all shareholders. Holding the meetings with non executive’s directors. Leading the performance of the board and committees. Making the good relationship with the CEO by providing regular support and advice.

Chief Executive Officer Roles

Executive management of group and committees and implements all board strategies by CFO and other executives.

Marginal costing:-

Marginal costing is a useful way of emphasizing the marginal costs of production and services. This information is of great help in making pricing decisions. Budgeting: - budgeting is probably the element of finance that has most impact on the time of non financial managers. This was a unique technique which is definitely going to convince other brands to follow the move. This helps to make forecasts on regular basis annually. Budgeting:- budgeting is process of preparing lists of all the expenses that will occur and revenues. it can Be seen as a plan for saving and spending. Budgeting is mainly used to provide a forecast of the revenues and the expenditures that will have to be made. It gives a platform of comparing the financial operations of the business with the forecast. There are two types of budgeting:-1-fixed budgeting2-variable or rolling budgetingIn fixed budgeting the forecast will be made once in a term[term can be monthly, quarterly, half yearly or yearly depending on the company]where as in variable budgeting the amount which is forecasted keeps changing or keeps varying. In modern days companies prefer not to do budget because of the fact that most of the budgets will be hard to realize because of varying costs over the time period. But budget gives a fair idea as how to allocate the resources and how much profitability can be expected out of the products that are manufacture or service provided.

Performance evaluation:-

Performance measures in operation focus on productivity, efficiency and effectiveness of the operation in line with the five performance objectives

quality, speed, dependability, flexibility and cost. Performance measure helps to identify areas for improvement. Some range of technique used by businesses to evaluate performance:-Balanced scorecardBenchmarkingCritical success factorsA tool that translates an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system." (Balanced Scorecard Collaborative, 2005, Online)to evaluate the organizational and employee performance in performance appraisal management processes, the conventional approach measure the performance only on a few parameters like action processes, results achieved or the financial measure etc. The balanced scorecard-an approach given by Kaplan and Norton provides a framework of various measures to ensure the complete and balanced view of the performance of the employees. Balanced scorecard focuses on the measures that drive performance. Balanced scorecard also provides a list of measures that balance the organizations internal and process measures with results, achievements and financial measures. Thus, the balanced scorecard gives the complete view of the employees and the organizational performance and helps to align the employee performance/action plans with organizational goals. http://www. balancedscorecard. org/Portals/0/images/wheelNew. pngBenefits of balanced scorecard:-the benefits of the balanced scorecard approach in measuring performance are:-Gives the complete picture of the employee as well as the organizational performance. It guides users in determining the critical success factors and performance indicators. Strategic review or analysis of the organisational capabilities and

performance. Focusing the whole organization on the few key things needed to create breakthrough performance. Integrating and directing the performance and efforts from the lowest levels in the organization to achieve overall performance. The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofits organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. (Balanced Scorecard Institute, 2010)The balanced scorecard provides a list of measures that balance the organizations internal and process measures with results, achievements and financial measures. The two basic features of the balanced scorecard are: A balanced set of measures based on. the four perspectives of balanced scorecardLinking the measures to Employee Performance

Benchmarking:-

Benchmarking is the process of identifying " best practice" in relation to both products and processes by which those products are created and delivered. The objecting of benchmarking is to understand and evaluate the current position of a business or organization in relation to " best practice" . in that way benchmarking helps Burberry explain the processes behind excellent performance. The process of benchmarking:-Stage 3In the 1970s Japanese companies benchmarked the best Western manufactures, reverse engineered their best products and then improved upon them by building in improved qualityStage2Find the secret of successThis may be difficult as

secrets may be closely guardedThe UK national benchmarking index and the local business link can help here. Schools and colleges may co-operate with each other to learn best practice. Stage 1identify the benchmarkthe organization chosen will be in the same sector and usually of the same sizethe target must be relevant and achievableBudgeting:-budgeting is process of preparing lists of all the expenses that will occur and revenues . it can be seen as a plan for saving and spending. Budgeting is mainly used to provide a forecast of the revenues and the expenditures that will have to be made. It gives a platform of comparing the financial operations of the business with the forecast. There are two types of budgeting:-1-fixed budgeting2-variable or rolling budgetingIn fixed budgeting the forecast will be made once in a term[term can be monthly, quarterly, half yearly or yearly depending on the company]where as in variable budgeting the amount which is forecasted keeps changing or keeps varying. In modern days companies prefer not to do budget because of the fact that most of the budgets will be hard to realize because of varying costs over the time period. But budget gives a fair idea as how to allocate the resources and how much profitability can be expected out of the products that are manufacture or service provided.

Critical success factors:-

The limited number of areas in which satisfactory results will ensure successful competitive performance for individual, department or organization. Source of critical factors:-Industry: e. g. automobile industry CSF’s image, cost control, meeting energy, standards, deliver on time

service. Competitive strategy and industry positionEnvironment factorsTemporal factorsManagerial position

Quality improvement techniques:-

Six-sigma:-six sigma defects is defined as anything that falls outside of a customer's specifications. Six sigma is a reference to statistical measuring system, equivalent to just 3. 4 defects per every million opportunities (snee, 2005).

Value chain analysis:-

The value chain-Every organization consists of activities that link together to develop the value of the business: Purchasing supplies, manufacturing, distribution and marketing of its good and services. These activities taken together form its value chain. The value chain identifies where the value is added in an organization and links the process with the main functional parts of the organization. It used for developing competitive advantage because such chains tend to be unique to an organization. According to porter, the companies are divided into two activities: Primary activities of production, such as the production process itselfSupport activities such as human resources management, that give the necessary the background to the running of the company but cannot identified with the individual part.

Conclusion and Recommendation:

After implementing all the strategies of finance, organizations have on huge success. Organizations have to be leading competitors in the UK market. With their development plans they will be on high level in the European

market or even on international scale. With the more improvement in the quality which they produced, they will get more profits. They were unforgiving reforms in the labour force; this allowed the organizations to focus on the long term development and in short term, this will give opportunity to shareholder to gain healthy return. They also allow people to share their new ideas and innovation for the further development of the business. In the organizations company, have less cultural difference problem. It's good for them because with more culture people in company, have wide range of knowledge and experience.