Essay on principes of finance

Business, Management

Question 1

Business organizations need to have an efficient and reliability financial management process in order to obtain the optimal or maximum profits ever. Financial management is a process which comprises of planning, strategizing, controlling and overseeing the administration process of financial resources within any given entity. The involved organization can either be a profit making or a non-profit making organization. All what matter in financial management is that financial resources which are usually available in limited supply are managed and utilized effectively for creation of an economic value? Financial decision making process entails or touches a number of factors which are essential in necessitating effective utilization of these financial resources.

Financial management decision is usually carried out in three main levels. These levels include the capital structure, capital budgeting and working capital management. Capital budgeting entails the process or the mechanisms of coming up with plans or strategies as well as overseeing the utilization of long-term investments which have been carried out by the organization. The core measures which are carried out in capital budgeting include considerations which are based on financial amount or size to be invested, the appropriate time to undertake that investment and evaluation of some of the risks which might be involved in the investment process. For example; analyzing the investment returns which would be accrued after purchasing a new machine in the organization comprises a capital budgeting decision making.

Capital structure financial decision entails the evaluation process of the appropriate financial mix to form the backbone unto which this organization would be operating on. Financial mix considers the fiscal resources which will boost or hold the operations of that particular organization. For example, a company can either be financed through a long term loan, capital reserves or through contributions made to the firm in the form of shares. Choosing the best sources and proportions comprise the capital structure financial mix.

Working capital management decision is another form of financial management decision process which entails the evaluation of how an organization is utilizing its short-term resources to achieve short-term goals which subsequently affects the achievement of the long term goals in a positive manner. Working capital is mainly comprised of current assets left after deduction of the current liabilities. An example of financial management decision in working capital management is the utilization of cash available in the organization to settle short term debts and other urgent investment decisions (Westerfield and Jordan, 64).

Question 3

Corporate institutions are organizations which are usually created by governing laws to create artificial persons which are able to undertake business transaction as well as being liable for all their actions. Corporate organizations are generally formed by a specified number of people who usually are more than two depending on whether that corporate is a limited organization or an unlimited corporate organization. Various advantages can be associated with corporate institutions. First, it is much easier to raise

capital for a corporate organization as compared to sole proprietorship and partnerships. Corporate organizations are taken to be individual entities, hence transactions carried out on behalf of them does not affect the employees directly. The chances of success level in corporate organizations are substantially while considering the pooled resources in terms of human resource and fiscal resources as well.

Nevertheless, it has some disadvantages which include the presence of agency problems where the owners of that corporate organization are unfairly exploited by the management team. In addition, the decision making process usually slow in a corporate organization in comparison to other forms of business types such as sole proprietorship and partnerships (Westerfield and Jordan, 54).

Question 4

Sarbanes-Oxley Act was integrated in the federal government of the United States of America in the year 2002 to regulate the actions undertaken by public corporate organizations. This Act was formed to regulate or avoid future accounting and auditing scams such as those associated with Enron and Adelphia corporate organization. This Act may force some of the corporate organization to delist themselves from the national stock exchange list due to a number of factors. First, the listed companies are subject to continuous scrutiny by external agents such as governmental auditing body. In addition, any malicious wanton misrepresentation of information to the public through such national stock exchange centers would accrue adverse penalties to that corporate leaders and organization as

a whole. In addition, the cost linked to listing process of these firms has been escalated to discourage use of exchange centers in misleading external customers.

Question 7

Corporate organizations are usually owned by shareholders who own shares in that given organizations. This is through monetary contributions which they make to these organizations. To control the firm's management process, these shareholders usually appoint a board of directors who they vest powers of overseeing the administration process in that organization. Agency relationship usually occurs within a corporate organization due to fact that shareholders own resources but they lack the appropriate capacity or ability to manage and exploit these resources effectively. To avoid this inefficient exploitation of resources, these shareholders offer their investment ratios to these corporate organizations. Problems usually arise in such scenarios. One of the problems is called agency problem where a conflict of interest occurs when the management team acts contrary to what is expected by the shareholders. For instance, allocation of fat salaries to these managers while neglecting the investment return to these shareholders.

Question 12

Business ethics and standard are the key element which many of the modern business organization are trying to pay attention to. The picture created by the organization to the external customers may ultimately affect the performance of that given organization. Nevertheless, the process of profit

maximization might adversely affect the ethical measures and standard for any given organization. For instance, poor pay to employees, poor working environment less investment in ethical practices such as employee motivation and training will definitely lead to sub-standards and unethical practices. Consequently, this process of maximizing profit while suppressing and exploiting employees should not be adopted in any organization. For example, an employee may be subjected to long working duration with poor pay and less motivation elements such as insecurity in job tenure among others for the sake of profit maximization should be avoided.

Works cited

Westerfield A. Ross, and Jordan. Fundamentals of Corporate Finance, 9th Edition, New York:

Irwin McGraw Hill (nd). Print.