

Financial management week 5

Business



Financial analysis is important for every company because it not only helps organizations to draw their financial statements and comply with the regulatory requirements but also offer other benefits. It provides tools for performing financial analysis of the company's performance as well as other tools which can help it to evaluate financial performance. It also allow a company to plan carefully and achieve the overall organizational goals in terms of managing the resources of the organization optimally. (Brigham & Ehrhardt, 2010)

Financial management also allows a company to manage its liquidity in effective manner and provides tools which can help maintain financial stability within the company. By using the resources optimally, financial management can actually help a company to remain financial stable even during hard times when a firm is unable to generate sufficient sales.

Cash flows of an organization are considered its life blood because without cash an organization cannot simply exist. It is therefore critical for every organization to manage its cash flow in optimal manner in order to generate sufficient liquidity to pay off its day to day expenses as well as debts.

(Webster, Gans, Milburn, & Simmons, Jr., 2007)

If cash flows are not managed properly, first thing a company will experience will be the constraints on its liquidity. Apart from liquidity, firm may also not been able to pay for its day to day expenses which could invariably result into its decline. Improper cash flow management may also result into non-optimal use of cash into activities which may not help maximize the returns to the shareholders of the firm.

Bibliography

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