

# **Financial Planning**

## **Meaning of Financial Planning:**

Financial planning means deciding in advance the course of action to be undertaken in future with respect to the financial management of a business enterprise. This function is mainly concerned with the economical procurement and profitable use of funds. It involves the determination of objectives, policies and procedures relating to the finance function.

A financial plan is a statement estimating the amount of capital and determining its composition.

## **Objectives of Financial Planning:**

- To ensure the availability of sufficient funds.
- To make a perfect balance of costs and risks.
- To ensure flexibility so as to adjust as per the requirements.
- To provide sufficient liquidity throughout the year.
- To ensure the optimum use of funds.
- To minimize the cost of capital.
- To improve the profitability of the enterprise.
- To make adequate provision for funds for meeting the contingencies likely to arise in future.
- To ensure growth and expansion of the business.
- To maximize the value of the firm.

### **Need/Importance of Financial Planning:**

- It ensures the availability of sufficient funds.
- It makes a perfect balance of costs and risks.
- It ensures flexibility so as to adjust as per the requirements.
- It provides sufficient liquidity throughout the year.
- It ensures the optimum use of funds.
- It keeps the cost of capital minimum.
- It improves the profitability of the enterprise.
- It makes adequate provision for funds for meeting the contingencies likely to arise in future.
- It ensures growth and expansion of the business.
- It maximizes the value of the firm.

### **Steps Involved in Financial Planning**

1. Estimating the total capital requirements (long-term as well as short-term) of the enterprise.
2. Determining the forms and the proportion of various securities to be issued to raise the necessary capital.
3. Setting financial objectives.
4. Formulating financial policies.
5. Laying down the financial procedures.
6. Making financial forecasting.

### **Characteristics/Essentials/Requisites of a good financial plan:**

**OR**

### **Principles Governing a Sound Financial Plan:**

- The financial plan should be so simple that it may easily be understood by everyone.
- It should have long-term view.
- It should be a flexible one so that it can be adjusted as per the requirements.
- It must be visualized with much foresight.
- It must ensure the optimum use of funds.
- It should make adequate provision for funds for meeting the contingencies likely to arise in future.
- It should provide sufficient liquidity throughout the year.
- It should keep the cost of capital minimum.
- It should keep in mind the temperament of the investors.



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