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An Overview of Financial Planning

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Abstract:
Planning is essential process in every firm. In financial planning in particularly is mainly focus on financial aspects of the business plan with the objective of taking decisions leading to most effective course of action. The financial manager has to make thorough study on current as well as future financial position of the firm. Based on findings of this study should anticipate the financial needs and seek best financing planning before funds needed to the firm.

Keywords: *financial aspects, financial planning, financial position, financial needs*

1. Introduction

It is already stated that the first and foremost function of finance is proper planning i.e. financial planning. Financial planning refers to the planning function related to financial requirements of a firm. A financial plan implies financial needs of a firm. Shortage of funds as well as excess funds proves costly for a firm. Funds requirement therefore need to be planned so that neither there is shortage nor excess availability of funds. The purpose of financial planning is to estimate and arrange requisite funds at all the times. Financial plan is also called as capital plan

1.1. Formula for Financial Planning

Planning with funds + utilization of resources = Financial planning

2. Objectives of the Study

- To study the over view of financial planning
- To learn, how to draw the financial planning
- To identify the problems and to overcome the problems in financial planning

3. Steps Involved in Financial Planning

3.1. STEP 1: consider the financial strength of previous planning

Have to consider the previous outcome of financial planning. Whether the financial strength is increased or decreased.

3.2. STEP 2: Make study the current financial strength.

- To ensure the sufficient funds to the company so that it may employ the resources up to the optimal point.
- To match the cost against with risk so as to protect owners against the loss of control over the business.

3.3. STEP 3: Identify the financial problems

Make comparison between the previous financial planning and current (before form a plan) resources of organization.

3.4. STEP 4: Overcome of the problems

To overcome the come the problems organization finance manager can make consultation with the financial advisor for betterment.

3.5. STEP 5: Form the financial planning

To provide the flexibility in the plan so that the financial structure of the company may be adjusted in the light of changed circumstances.

To keep financial plan simple as it is consistent with other objectives of the plan.

4. Types of Financial Planning

4.1. Short Term Financial Planning
It is prepared for maximum one year. This plan looks after the working capital need of the company.

4.1.1. Advantages
- Short term financial planning is much faster than the long term financial planning
- Company can have some flexibility on financial planning.
- We can easily compute the operating and cash cycles

4.1.2. Disadvantages
- Under short term financial planning company can have lower return only.
- Firm has to undergone for often planning

5. How to Over Come Disadvantages
Even though company has earned the lower return it would not faces the losses and uncertainty.
This often planning can do with the help of financial advisor. Because people in the organization may not often do the planning it create some lack of interest

5.1. Medium Term Financial Planning
It is prepared for the period of one to five years. This plan looks after the replacement and maintenance assets, research and development etc.

5.1.1. Advantages
- Medium term financial planning company can earn the moderate to high profit.
- It is flexible to short and medium firms
- Under medium term financial planning company can set out with continues commitment

5.1.2. Disadvantages
- Planning tendency make administration in flexible
- There is no scope for administrator freedom

5.1.3. Overcome
- To overcome the in flexibility company should spend the separate time for the planning
- Company can make the interventions of the auditor or the financial advisor to get administrator freedom

5.2. Long Term Financial Planning
It is prepared for more than five years. Its look after the long term financial objectives of the company, its capital structure, expansion activities etc.

5.2.1. Advantages
- Company can make the neat planning with the available resources
- There is no often planning so there is no chance for the lack of interest to do the financial planning
- Huge industries and companies can follow the long term financial planning.

5.2.2. Disadvantages
- There is no scope for individual freedom
- Payment of taxes will be high. If company earns much profit

5.2.3. Overcome
- Maximum there is no participation of individual. There should be minimum of 5 financial experts to form the financial planning
- Company can make some interventions in the corporate social responsibility. so that company can get some allowances in tax deductions

6. Significance of Financial Planning

6.1. Successful Promotion
Effective financial planning ensures the successful promotion of the business which is only potential through well thought out flexible financial plan drafted in anticipation of the establishment of the business.

6.2. Effective Direction
Since the promotion of business, purchase of assets and raw material, production and marketing of goods depend on finance, the success or failure of entire firm closely linked with financial planning.

6.3. Conversion of Capital
Sound financial planning is need for effective utilization of capital of a firm. Plant and machinery purchased by a firm become obsolete soon after the arrival of new machinery in the market with improved technology. Thus sound financial planning is predictable for conversion of capital investment in assets

6.4. Expansion and Development
Profit maximization is one of the objectives of the firm. It requires the expansion and development of business units for achieving its optimum operational efficiency. Efficient financial planning avoids financial difficulties in future expansion and development of business.

6.5. Adequate Liquidity
Sound financial planning enables the firm to maintain adequate liquid funds to meet its obligations creditors. Availability of adequate funds also prevents the firm from the situation of over trading and strengths its repayment capacity

6.1. Challenges in Financial Planning
- Financial plans are prepared by taking into account the probable situations in the future. Since the future is not predictable and things may not happen forecasted. Thus the utility of financial planning is limited.
- Once the financial plan is prepared, it becomes difficult to change it.A change in the circumstances may demand change in the financial plan, but managers may not like to do so.
- Finance function is the most important of all functions. Other functions have effect on financial plan. While preparing financial plan, various other factors are kept in mind. Therefore, unless proper coordination among all the functions, the preparation of financial plan become difficult

6.2. Problems in Financial Planning
- ➢ Why financial planning is not successful in some of the units?

In my view point: Before doing financial planning make sure the resources available in the organization. Financial planning does not do only with the help of the finance manager try to do it with the interventions of financial advisor. Organizations may try to follow the short term financial planning. It is best way to done the financial planning successfully.

- ➢ How to escape from uncertainty in financial planning?

In my view point: Before doing the financial planning make the certain amount in reserve to meet out uncertainty. That reserve amount would help to save from losses of the firm. Before doing the financial planning make the note of the following things:
a. Make sure to available of resources
b. make the intervention of the financial advisor
c. if the company feels comfortable with short and medium term financial planning go through it because it helps to avoid the losses
d. if company done any previous planning. make note of it both success and failure it helps form the current plan successful
e. company should have at least 20%of amount in financial planning as a reserve to meet out certainty losses

7. Findings
- Financial planning is continuous ongoing process.
- Financial planning has to be assessed from time to time and altered accordingly
- Financial planning is necessary for both the long term as well as short term operations of the firm
- Financial plans have to be drawn keeping in mind the objectives of the firm
- Budgets are part of the border financial planning process. Budgets are formulated on the basis of objectives, policies, procedure
- It is usually not delegated to the subordinates as it is one of the important aspects of financial management and requires high skill and expert knowledge.

8. Suggestions

- Capital plan should free from the complications and it should enable easy management of securities.
- Financial plan should ensure the adequate liquidity so as to meet the short term commitments immediately.
- Financial planning will be differing from entrepreneur, corporate, family. While doing the financial planning make sure to spend less than the earnings or revenue
- In corporate and entrepreneurship area financial planning can't be formulated only by the finance manager. Involvement of financial advisor is essential in planning to ensure the plan successful.
- Under the financial planning not only concentrate on making savings or profit but also find the smarter ways to pay off the debt.
- While doing the financial planning should consider the previous financial planning pros and cons. It may help to formulate the current planning.

9. Discussions

The objective of the financial planning is to run the business without loss. Before going through with the financial planning finance manager has to make consult with the financial advisor with the organization resources. While doing the financial planning company can make the certain amount to put into the reserve to escape from uncertainty losses. It is just like an insurance. Company can put the maximum of 50% amount onto the reserve. It helps to save from the uncertainty losses.

Companies can go through with the short term financial planning. Because short term financial planning helps to view the movement of the planning step by step with this company may escape from financial planning collaboration or confusion. This short term financial planning shows what to done first then next. Company can also be revised the previous planning pros and cons to make the current financial planning successful;

10. Conclusions

Sound and effective financial plan is very important for the success of the business. In my point of view before going through the financial planning organization should consider the availability of resources and should identify the problems and risk in planning. By considering these company should form the proper financial planning. It will help to attain the organization goal.

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