What is Financial Management?

Worksheet

Financial management involves acquiring, allocating, and using funds efficiently to maximize shareholder value. It includes planning, controlling, and making strategic decisions about debt, equity, investments, and working capital.

Questions

1. Financial management's primary goal is to

A) Minimize all expenses
B) Maximize shareholder value through efficient resource allocation
C) Increase revenue only
D) Reduce employee count

2. Which is a capital budgeting decision?

A) Paying monthly rent
B) Purchasing a new production facility
C) Paying supplier invoices
D) Issuing paychecks

3. What does working capital management focus on?

A) Long-term debt strategy
B) Optimizing short-term assets and liabilities (inventory, receivables, payables)
C) Stock price
D) Mergers and acquisitions

4. Why is cash flow forecasting critical in financial management?

A) It eliminates risk
B) It predicts when cash shortfalls occur and enables proactive planning
C) It guarantees profit
D) It's only for large corporations

5. How does a startup use financial management to secure growth funding?

6. How does a manufacturer manage working capital efficiently?

7. How do capital budgeting decisions differ from daily financial management?

8. Define: What is financial management?

9. Define: What are the 5 key functions of financial management?

10. Define: What is working capital?

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Answer Key

1. B) Maximize shareholder value through efficient resource allocation - Financial management balances profitability, growth, and risk to create long-term value for shareholders.

2. B) Purchasing a new production facility - Capital budgeting involves large, long-term investments like equipment and facilities. Rent, invoices, and payroll are operational expenses.

3. B) Optimizing short-term assets and liabilities (inventory, receivables, payables) - Working capital management ensures efficient daily operations by managing cash, inventory, and receivables.

4. B) It predicts when cash shortfalls occur and enables proactive planning - Forecasting helps companies avoid liquidity crises by predicting when cash will be tight and planning accordingly.

5. 1) Create financial projections (5-year forecast). 2) Calculate burn rate (monthly cash usage). 3) Forecast runway (months until capital runs out). 4) Prepare pitch deck with financial metrics (CAC, LTV, unit economics). 5) Negotiate with investors using cash flow analysis.

6. Optimize cash conversion cycle: 1) Reduce inventory holding time (just-in-time supply). 2) Speed up receivables (offer early-payment discounts). 3) Extend payables responsibly (negotiate longer payment terms). 4) Monitor daily cash position to avoid shortfalls.

7. Capital budgeting = long-term, high-impact decisions (build factory, buy equipment, enter new market). Daily management = short-term operations (payroll, inventory, receivables). Both use NPV, IRR, and payback period to justify investments.

8. Planning, organizing, and controlling financial resources to achieve business objectives and maximize shareholder value.

9. Planning & budgeting, organizing, directing & controlling, decision-making, and evaluation.

10. Current assets minus current liabilities - measures a company's ability to pay short-term obligations.

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