PM FORMALISATION OF MICRO FOOD PROCESSING ENTERPRISES SCHEME

MODULE-4

FINANCIAL MANAGEMENT - HANDOUTS

National Institute of Food Technology and Entrepreneurship and Management
Ministry of Food Processing Industries Plot No. 97, Sector-56, HSIIDC, Industrial Estate, Kundli, Sonipat, Haryana-131028
Email: pmfmecell@niftem.ac.in Call: 0130-2281089

FINANCIAL MANAGEMENT

Financial management is concerned with the acquisition and utilization of funds. Fundraising may include decisions about the cost of capital, capital structure, capital markets, IPOs, and so on however fund utilization may include Capital Budgeting, Portfolio Management, Working Capital, Management, and other activities.

One must consider these accounting concepts while constituting an accounting system for an enterprise:

1. ***Separate entity concept:*** A business is a separate entity than the owner, hence its assets and liabilities shall be treated separately.

2. ***Consistency concept:*** When a business chooses to employ a certain accounting technique, it should continue to do so. Financial statements created over a number of periods can therefore be compared with certainty.

3. ***Conservatism concept:*** Expenses are recorded sooner than revenue whenever there is a reasonable likelihood that they will be incurred. Revenue is recorded only if there is a reasonable probability that it'll be realized.

4. ***Accrual concept:*** When an asset is earned, revenue is recorded, and when it is used, expenses are recorded.

5. ***Going Concern concept:*** When preparing financial statements, it is necessary to make the judgment that the company will remain in business in the foreseeable future.

6. ***Matching concept:*** It is best practice to record expenses that are related to income in the same time that revenue is reported so that there will be matching entries in the debit and credit side for each transaction.

7. ***Money measurement concept:*** The books of accounts must only contain entries for transactions that can be quantified in terms of money. Transactions that do not involve money are not documented in books since they are not considered to be monetary transactions.

FINANCIAL ACCOUNTING

Throughout the course of running a firm, a number of transactions will take place. It is extremely unlikely that one could recall all of them. Because of this, a company is required to keep a record of all of these exchanges/ transactions in order to ascertain the results of the business activities.

For the purpose of assisting the promoter in accurately recording all financial transaction and being aware of the results of business interactions, a systematic and rigorous science has been developed. This aspect of accounting is referred to as **"Financial Accounting."**

Financial Accounting involves (a) the recording of data and (b) the strategies used for the presentation of data that are utilized for recording a variety of transactions. This process is referred to as "bookkeeping." The data that was captured is then condensed into a summary and organized in a methodical fashion before it is provided to a variety of consumers in the form of financial information/ statements. In India, we follow double entry book keeping system.

There is the potential for the following kinds of transactions:

- **a) Exchanging goods for cash/credit**
- **b) Serviceexchangeforcashorcredit**
- **c) Exchanging assets for cash/credit**
- **d) Payingcashtocreditors**
- **e) Receiving cash from debtors**
- **f) Exchanging goods for cash**
- **g) Tradeofgoodsforservices**

CASH AND CREDIT TRANSACTIONS

There are generally two types of transactions that are recorded i.e., **cash and credit transactions.** Transactions entail the use of accounts. An "account" is a need for every transaction. There are a total of three different account types and different rules for debit and credit entries:

1.*Personal Account or Individual Account:* This category comprises all accounts held by both individuals and organizations, including businesses, corporations, societies, and others.

Rule: Debit the benefit receiver, credit the benefit giver.

2. Assets Account: All asset kinds fall under this heading. All financial investments in tangible or intangible items with utility or use value are considered assets. Additionally, these assets can be sold and turned into cash.

Rule: Debit what comes in, credit what goes out.

3. income & Expenditure Account: All accounts that indicate the business's revenue income, and revenue expenditure are included in this category of accounts.

Rule: Debit all the expenses and losses, credit all the incomes and gains (that's why we have our incomes credited to our accounts).

Posting: it is the process of documenting the entries into books of accounts and this follows the money measurement, matching and conservatism concept.

BOOKS OF ACCOUNTS

- ***Journal:*** it is one of the main books of accounts which record every entry/transaction happens with a business in a chronological order (as and when it happens). Hence, it may be considered as a master book. Based upon entries fend into this, other books are prepared.
- ***Ledger:*** It records all business transactions transferred from the journal or subsidiary books in a condensed and classified format. for instance, if a business owner wants to know how much money they owe Mr. P, they may look up Mr. P's account in the Ledger.
- ***Purchase book:*** The purchase book contains all transactions relating to purchases, whether made with cash or credit. Additionally separately documented in this section are purchase returns.
- ***Sales book:*** The sales book contains a record of all credit or cash sales transactions. Transactions related to sales returns are likewise kept separate.
- ***Cash book:*** The 'cash' account is kept in the cashbook, a subbook of the ledger. Petty cash transactions are also tracked individually in this section.
- ***Bank book:*** A bankbook is a subsidiary book of the ledger where the 'bank' account is kept.
- ***tock register:*** This is a register that keeps track of stock movement.

FINANCIAL STATEMENTS

Financial Statements: Accounting information is presented in financial statements to a variety of consumers, including owners, bankers, creditors, tax authorities, governments, suppliers, and others. One can have a meaningful understanding of the financial status of the organization with the aid of the financial statements.

TYPES OF FINANCIAL STATEMENTS

Trial Balance: The first stage of creating final accounts is a trial balance. To ascertain the ledger entries' arithmetic accuracy is the trial balance's main objective. The fundamental tenet of double-entry bookkeeping is that every transaction has two equal and opposing effects. It indicates that there is a corresponding credit to every debit. As a result, at the end of the accounting period, the sum of all accounts having a "debit balance" and the sum of all accounts with a "credit balance" should be equal. If they are not equal, the accounts will not be accurate.

Profit & Loss Statement (P&L): Making a trial balance is a necessary step before accurately making the balance sheet and profit and loss account, the final two crucial financial statements. Its use is still mostly restricted to gauging math accuracy, though. From the financial accounting system, the user is interested in learning the profitability of the business activities over a given time period as well as the status of the company at the end of that time. The statement known as a "Profit and Loss Account" (P & L A/c.) shows how profitable a company's operations were throughout the accounting period.

PRODUCTION MANAGEMENT

The application of management principles to the production function in a factory is referred to as production management. In other words, production management entails the planning, organising, directing, and controlling of the manufacturing process. The production Management activities comprises of:

- Input resource specification and procurement, including management, material, and land, labour, equipment, and capital.
- Product design and development to determine the manufacturing process for converting input factors into goods and services.
- Monitoring and controlling the transformation process to ensure efficient production of goods and services.

PURCHASE PROCEDURE AND METHODS:

The purchase procedure will be determined by the nature, size, standard, location of the establishment and future requirements forecast. These are the following methods of purchasing:

- **Purchasing contracts:** A contract is entered into with a supplier for the commodities to be supplied on a regular basis at a reasonable price. A contract is a legal document, and the terms of the contract should be carefully drafted, preferably by the firm's solicitors.
- **Periodical Purchasing:** The establishment's needs are estimated on a regular basis, and regular orders are placed on a weekly/fortnightly/monthly basis. This method ensures that stocks are kept at a consistent level. On the basis of periodic requirements, a master quotation is prepared.
- **Market purchasing:** The establishment's needs are estimated. Quotes are requested from various commodity suppliers. The quantity and prices are compared, and orders are placed with the firm with the price and quantity of provisions in mind.
- **Centralized purchasing system:** The centralized purchasing system is very popular in chain operations. The requirements of each individual unit are relayed to a central office in this system. The central office determines the total requirements for all units and then makes total purchases for either individual unit delivery by the dealer or centralized delivery.
- **Competitive Purchasing:** In this procedure, quotations are requested from one or more purveyors/suppliers, and orders are placed where terms are most advantageous to the buyer, after all price, quality, yield, and service elements have been considered.

Inventory management: The process of ordering, storing, using, and selling a company's inventory is referred to as inventory management. This includes raw material, component, and finished product management, as well as warehousing and processing of such items.

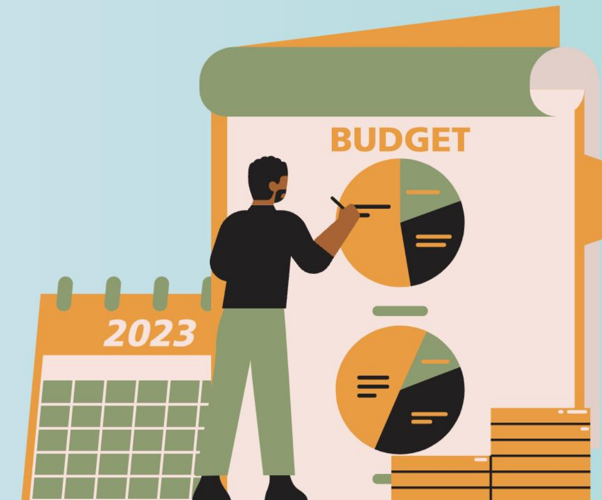
Cost control: Cost control is a finance professional practice that analyses a company's overall expenses and reduces project costs to increase profit. Cost control enables businesses to stick to a strict budget, which keeps their finances stable and can help their projects become more profitable.

Five cost cutting strategies are:

Budgeting: A budget is a financial and/or quantitative statement prepared and approved prior to a specified period of time of the policy to be pursued during that period in order to achieve a specific goal. It may include income, expenditure, and capital employment. It is frequently used for control purposes.

It has the following components:

- **Budget for physical assets**
- **Costs budget**
- **Profit budget**



PMFME
सूक्ष्म उद्यमों का संबल