



ABM 302

LESSON 3: FINANCIAL PLANNING: MEANING, COMPONENTS & PROCESS

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MEANING OF FINANCIAL PLANNING

Financial Planning is process of framing objectives, policies, procedures, systems and budgets for diverse financial activities of a business.

It is advance programming of plans of financial management and their integration and coordination with diverse activities of a business.

Financial plans can be:

- Short term financial plan (≤ 1 Year)
- Medium term financial plan (1 – 5 Years)
- Long term financial plan (≥ 5 Years)

COMPONENTS OF FINANCIAL PLANNING

- Financial Goal

Deciding about long-term objectives of the firm; formulate plans, policies and systems to achieve them.

- Financial Resources

Deciding about alternative sources of finance according to changing needs and business environment.

- Financial Tools

- Cost - benefit analysis
- Risk - return analysis
- Cost - volume profit analysis
- Budgeting
- Ratio analysis
- Funds flow/ cash flow analysis

PROCESS OF FINANCIAL PLANNING

- Assessment of the business environment
- Determination of goals and objectives of business
- Determination of financial resources required
- Assessment of internal sources of funds and the need for external financing
- Examining alternative sources of external finance
- Designing of capital structure and deciding time and type of issue
- Carryout cost-benefit/ risk-return analysis
- Budgeting and C-V-P analysis
- Formulation of financial policies and systems for effective financial controls

Thank you...

