

Answer on Question #54493, Economics / Finance

How is internal competition between projects/departments competing for funding allocated and what role does the budgeted statement of financial performance play?

Explanation:

Justification of the funding strategy of the investment project involves the choice of financing methods, the definition of investment financing sources and their structures. The method of the project financing is considered as a way of attracting investment resources in order to ensure the financial feasibility of the project.

As the methods of financing of investment projects can be considered:

- self-financing, the implementation of investment only at their own expense;
- shareholding and other forms of equity financing;
- debt financing (investment bank loans, bond issuance);
- leasing;
- government funding;
- mixed financing based on various combinations of the considered methods;
- project financing.

Sources of financing of investment projects are funds used as investment resources. They are divided into domestic (equity) and external (raised and borrowed capital). Domestic financing (self-financing) provided by the company, is planning to implement an investment project. It involves the use of its own funds - the authorized (share) capital, as well as the flow of funds generated in the course of business, first of all, net income, depreciation and amortization. The formation of funds intended for the implementation of the investment project should be strictly targeted, which is achieved in particular through the provision of a separate budget of the investment project.

Created from different funding sources allow the enterprise to promptly invest in new production, if necessary, to ensure the expansion and modernization of existing enterprises, to fund research, development and implementation, etc. Financial support reproduction costs may be carried out in three forms: self-financing, loans and public funding.

The using of the financial resources is now in many areas, the most important of which are:

- Payments to organizations in the financial and banking system in connection with financial obligations (entry of taxes, interest payments to banks for the use of loans, repayment of loans taken earlier, insurance payments);

- Equity investments in capital expenditures for the expansion of production and technical updates;

- Investment funds in the securities of other companies, acquired in the market;

- Channeling financial resources to charity, sponsorship.

Organization Financial Management allows to attract additional financial resources on the most favorable terms, to invest them with the greatest effect, to carry out profitable operations in the financial markets by buying and reselling securities.

Selecting the source to cover the costs of the enterprise with a shortage of own financial resources depends on the purpose of investing. To cover the short and medium needs for working capital loans should be used to credit institutions. In carrying out major capital investment in expansion, modernization and reconstruction of production can bring long-term loan or use the issuance of securities.

It is equally important for the company efficiently use available financial resources to find the most effective ways of investing that bring the company additional profits. It is important to be able to anticipate the dynamics of economic processes and professionally own technique financial transactions.

An example of internal competition for funding allocated can be considered.

The Department of Surgery holds three internal research fund (IRF) grant competitions:

All Department of Surgery faculty members are eligible to apply for internal research grants in the fall competition. Six grants may be awarded to a maximum of \$20,000 each.

New faculty recruits to the Department of Surgery (within five years of first appointment) are eligible to apply for internal research grants in the spring competition. Four grants may be awarded to a maximum of \$20,000 each.

Residents in the Department of Surgery are eligible to apply for internal research grants in the fall competition. Two grants will be awarded to a maximum of \$5,000 each. Please note, there will be one resident internal research grant in the 2015 Spring competition and two in the 2015 Fall competition.

Thus, it should be noted that the funding priorities of departments/projects of the company, primarily due to internal policy the distribution of funding and follow-up by the mechanism for monitoring of funds using.

The budgeted financial statements contain estimates prepared in accordance with the requirements of the company's financial budgeting and reporting framework, including the principles of standards and statements of accounting concepts. Budgeted financial statements are compiled from the annual budgeting model of a business. They are useful for estimating the financial results, financial position and cash flows of a business as of various dates in the future. They are particularly useful when creating a new budget model, since one can view the impact of adjustments to the budget model on the budgeted financial statements. The management team then goes through several iterations of the budget model to bring the financial statements into line with its expectations and what the business is financially and operationally capable of achieving.

Thus, it can be noted, that the execution of the budget of the financial statement plays an important role. Based on the results of the project implementation of the company, the level of the following to the budget model of the enterprise and the variations in actual performance from planned can be concluded. According to the information contained in the financial budget report, it is possible to analyze the extent to which the funds have been used for all projects and by the all departments of the enterprise, in order to find key deviations and develop appropriate actions to change the company's strategy in the future.

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