Answer on question #38935, Math, Other

1. “The profit maximization is not an operationally feasible criterion” Do you agree? Illustrate your views.

2. “The function of Financial Management is to review and control decisions to commit or recommit funds to new or ongoing uses. Thus in addition to raising funds, financial Management is directly concerned with production, marketing and other functions within an enterprise whenever decisions are made about the acquisition or destruction of assets”. Elucidate.

Explanation:

The main principle of the enterprise (company) is to maximize profit. For this reason, the profit is the main indicator of the efficiency of production.

Profit performs two major functions:

1) characterizes the final financial results of the company, the amount of his cash savings,

2) is the main source of financing the costs of production and social development of the enterprise (income tax - a key element of state budget revenues).

With the development of market relations is an expansion of the traditional understanding of the profit is reduced to the difference between revenues and costs. This corresponded to "balance" the definition of profits. With the transition to the market, except for the accounting and define "economic" profit. In Cost Accounting profit is part of the income remaining after reimbursement of current expenses and interest on short-term bank loans.

Profit for the enterprise is the main source of replenishment of working capital, material incentives, financing social, etc. As the most important category of market relations profit performs the following functions:

- Describes the economic impact resulting from the activities of the enterprise;

- An essential element of financial resources of the enterprise;

- The source of income of the budgets of different levels.

In terms of commercial calculation profit enterprise is not only as the main outcome (a key indicator evaluation criteria) financial and economic activity of the enterprise, but also the source of its development, financial innovation and investment projects, other needs, including material and as members of a labor staff and owners, and society as a whole. Therefore central to its distribution system should be a combination of interests of business entities, and society as whole and individual employees. Implementation of this requirement leads to the basic principles of its distribution: a primary financial commitment to the community as a whole (represented by the state), ensuring maximum profit at the expense of the needs of the increased production, the use of financial incentives to its employees, the direction for the development of non-productive sphere. Maximum profit is achieved in interaction of internal and external factors of the company. The main requirement of profit maximization is the profitability of each unit of output. The firm seeks to maximize the difference between the times total revenue and total costs. Production of each additional unit of output increases the volume of the amount of marginal costs, but also increase and total revenue - the amount of marginal revenue. Until marginal revenue is greater than marginal cost, the profit increases in general, to maximize its limit has not been reached and the firm can increase production. Once the marginal costs are higher than marginal revenue, total profit growth slows and increase production becomes unprofitable. Consequently, the profit margin reaches a maximum at this output, at which marginal revenue equals marginal cost.

As noted above the profit rather a criterion of evaluation of financial and economic activity of the enterprise. Profit cannot form the basis of operational criterion. Feature arrived in the market is to invest in its production, which contributes to economic growth and enhance its enterprise competitiveness. In practice, planning and accounting of the following types of income:

1) Income from sale of goods (works, services);

2) Operating income;

3) Income from operations;

4) Profit for the period;

5) Taxable profit;

6) Profit subject to preferences;

7) Profit for the product;

8) Income distribution;

9) Normal profit.

We see that company has a lot of types of profit. As an example consider simplest variant of short and long term profit maximization model of the company. The information is provided in table.

Table

Period	Company A	Company B
2010	$20 000.00	
2011	$40 000.00	

2012	\$15 000.00	\$50 000.00
2013	\$25 000.00	\$50 000.00
Total profit	**\$100 000.00**	**\$100 000.00**

As can be seen from Table we have the same total profit in both companies. If we compare the figures we can conclude that the maximum total profit is the same, it is 100 thousand dollars of each company. But profits of both companies differ in one important respect, while the company A is the first company provides higher returns in previous years, the returns of the second company appear only in 2012-13. As a result, we could not say that the profits of these companies are the same. This is true also because the basic law of financial planning is that profit obtained earlier attractive because it can be reinvested to earn more money and as a result more profit, another company benefits received later. In this example, we see that criterion of profit maximization does not consider the difference between the profit obtained in different time periods. Valid in practice benefits previously obtained should be evaluated significantly higher than the same benefits received in subsequent periods.

Thus the concept of profit maximization is not clearly signals those short and long term, as well as profit before taxation and after paying them.

2. The function of Financial Management is to review and control decisions to commit or recommit funds to new or ongoing uses. Thus in addition to raising funds, financial Management is directly concerned with production, marketing and other functions within an enterprise whenever decisions are made about the acquisition or destruction of assets". Elucidate.

Every business begins with a statement and answer three key questions: What should be the size and the optimal composition of assets of the enterprise to enable the enterprise achieve its goals and objectives? Where to find sources of funding and what should be their best composition? How to organize current and future financial management, ensuring financial stability and solvency of the company? These issues are addressed in the framework of financial management - one of the key sub-total enterprise management system.

Financial management is basically concerned with planning, organizing and controlling of financial resources of an organization. Useful to distinguish financial management in the narrow sense of the word - management of financial resources or financial flows (the traditional understanding), and financial management in the broadest sense - financial management or operation of the financial condition of the enterprise, business management in general, the reconciliation of all the components (regions) with management positions achieve desired financial results.

Under financial management understand: management system formation, distribution and use of financial resources, the entity and its effective circuit of funds; system of relationships between the different actors about attraction and use of financial resources;

science and practice of corporate financial management, aimed at achieving its tactical and strategic objectives; management of financial resources and property of the company; management system of money relations (finance), expressed in the formation of income (cash funds and resources), the implementation costs (distribution and redistribution of funds, resources), monitoring the effectiveness of the above processes; asset and liability management of the enterprise in order to maintain the balance of payments and ensure adequate liquidity of the enterprise ;management of cash flows of the enterprise.

The above definitions include the management of fundraising, sales promotion, acceleration of payments, financial planning, inventory management and cost and other matters dealt with by the financial managers of enterprises. The financial manager should manage working capital, cash flow planning and budgets of the Company, to develop financial strategies. At the same time, constantly analyzing the real economic condition of the company, comparing it with national and even international market situation, time must take certain decisions to optimize financial situation. The financial manager is required to provide to the chief executive of reliable information about the current condition of the company, predicting its future state and an action plan for further development.

In conclusion, we can summarize the arguments, financial management can be defined as a purposeful activity control subject (top management and financial services), aimed at achieving the desired financial state of the managed object (enterprise), enterprise management to achieve them planned financial results and the effectiveness of its activities. Consequently, financial management - financial management is now in terms of achieving the desired financial results or financial condition of the enterprise management.