Financial Management in Construction

- **Introduction**

1. General Introduction
2. Goals of financial management
3. Functions of financial management

- **Financing decision**

1. Short term financing
2. Intermediate term financing
3. Long term financing



Firm’s financial operation

1. Financial statements
2. Financial analysis

Investment policy

3. The time value of money
4. Investment appraisal
5. Capital budgeting on contract investment
6. A system of control levels



- **Working capital management**

1. Working capital policy
2. Cash & liquid management
3. Credit management
4. Inventory management



General Introduction

What is financial management all about?

- FM is the planning for, acquiring and utilizing of funds in order to maximize the **efficiency** and **value** of the firm
- It involves

Forecasting and planning

Major investment and financing decisions

Coordinate and control

Risk management



Financial management is the managerial activity which is concerned with the planning and controlling of the firm’s financial resources. It was a branch of economics till 1890, as a separate discipline, it is of recent origin.
(financial management, 9th edition ,I M Pandey p.3)



- No matter what the nature of the proposed business is and how it is organized, one has to address the following questions.

1. What capital investment should be made? That is what kind of material and equipment should be purchased, or building to be rented etc.
2. How and where the money to pay for the proposed capital investment should be raised?
3. How the day-to-day financial activities are handled like collecting the receivables and paying the suppliers?

Today it has broaden to deal with issues like

- Which new proposal for employing capital should be accepted by the firm?
- What steps can be taken to increase the value of the firms common stocks?
- How much working capital will be needed to support & expand the companies operation?
- Where should the firm go to raise the short and long-term capital demand and how much will it cost?
- Should a firm declare a cash dividend on its common stock and if so how much a dividend should be declared?



The term finance can be defined as the management of the flows of money or its equivalent through an organization, weather it is a for or not-for profit firms, corporation or non-corporation business, or government agency.

Finance concerns its self with the actual flow of money as well as any claim against money.

- **The flow of funds is a continuous process.**

Main users of financial information

- Owners
- Managers
- Lenders
- Suppliers
- Customers
- Investment analysts
- Competitors
- Employee
- Government
- Community representatives



What kinds of business ownership exist?

There are basically three arrangements

- Sole proprietorship
- Partnership
- Limited company



Sole proprietorship

- An individual is the sole owner
- Often small
- The number of such business is very large
- Easy to set up
- The law doesn’t recognize it separate from the owner when the owner dies the business ceases
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Partnership

- At list two individuals
- Much in common with Sole proprietorship



Limited company

- Minimum two individuals
- Liability is limited
- In many cases owners are not involved in day-to-day activities
- It has regulations even to start part of which to prepare annual financial report
- Double taxation



- In the larger limited companies A board of directors is appointed by owners (shareholders) to oversee the running of the business.

