Financial Management in Construction

- **Introduction**

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



What is the reason to start and run a company(busines s)?



Goals of financial management

Profit maximization

- Is vague (profit in the short run might be different from profit in the long run) no consideration for P PC balance
- It leaves consideration of timing and duration undefined (there is no guide for comparing profit now with profit in future or for comparing profits streams of different durations)



- It overlook future aspects
  - Some business have placed a high value on the growth of sales and are willing to accept lower profits to gain stability of the market sales,
  - Other business recognize diversifying their activities into different products that strengthen the firm but short term decline in profit.
  - Others firm use a portion of their profits to achieve social goals or to make contributions to society.

Wealth maximization

- Avoid high level of risk
- Pay consistent dividend; by paying consistent dividends, the firm helps attract investors seeking cash income, which maintain the market value of the stocks and keep up its present value.
- Seek growth in sales; as a firm increases its sales and develops new markets for products, it protects itself against economic recessions, changes in consumer preferences or other reductions in demand for the firm's products. However profit may decrease from the additional cost required for promotion and secure attraction of various customers.
- Maintain market price of stocks



Functions of Financial Management

1. **Liquidity functions**: this means that the firm has adequate cash on hand to meet its obligation at all times.(or the firm can pay all its bills when due and have sufficient cash to take unanticipated discounts for large cash purchases)
    - Forecasting cash flow
    - Raising funds
    - Managing the flow of internal funds

2. **Profitability functions**: In seeking profit for the firm the financial manager shall provide specific input into the decision-making process based on financial training and actions.
    - Cost control
    - Pricing
    - Forecasting profit
    - Measuring risk-return of a proposal

3. **Managing assets**: assets are the resources by which the firm is able to conduct business. The term assets includes buildings, machinery, vehicles, inventory, money and other resources owned by the firm. A firm's asset must be carefully managed and a number of decisions must be made concerning their use. The decision making role crosses liquidity and profitability lines. Converting idle equipment to cash improves liquidity, reducing costs improves profitability.

