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FINANCIAL PROFITABILITY MANAGEMENT: AN OVERVIEW

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ABSTRACT

Financial profitability is a factor available to every organization is for production and service. It should be used to its maximum, because no Profitability can be increased indefinitely. In fact, Financial Profitability need to be skillfully used through imaginative and innovative management techniques. Therefore, the most important financial Profitability for any establishment today is its "Management skill". When this financial Profitability is well managed and utilized the management makes sure that all the Profitability generated is controlled and utilized in the best public manner. The subject matter of financial profitability has undergone a significant change in the recent years. Earlier financial profitability function was concerned with obtaining fund but now it also encompasses the 'use' of fund. Therefore the financial profitability function includes judgments about whether an every organization should hold, reduce, or increase the investment in various assets. In this paper financial profitability management is discussed critically.

***KEYWORDS**: Financial Profitability, Profitability Management, Use of Fund.*

Introduction

Every organization has an objective, which can be either profit maximization or wealth maximization. However, wealth maximization refers to the maximization of the value of the company or the price of its shares. It is in the overall interest of the company or its shareholders to maximize its value or its share prices. Thus, wealth maximization is considered to be a better objective; an 'all' inclusive goal, and serves as a performance index or report card of the company's progress. As against this, the objective of profit maximization ignores the time value of money, risk or uncertainty, or the effect of dividend policy of the company. Financial Profitability is said to be the life blood of a business organization. It has become proverbial that money makes the mare go. Likewise, financial Profitability make the business run. In other word, financial Profitability management is the activity of a management that is responsible for achieving and effectively utilizing the financial Profitability necessary for efficient operation of the every organization. The financial Profitability management is the activity of management that is responsible for achieving and effectively utilizing the financial Profitability, management will depend on the quality of its management. It is a distinct process consisting of obtaining all the financial Profitability available, planning and controlling in order to accomplish the predetermined objectives. It can supply financial data to the management to facilitate decision making and advise the management on all matters in the financial field.

The main problem of the financial Profitability management is financial planning. It involves the forecasting for short-term and long-term fund. The other problem is of the evaluation of investment alternatives which is done through pay-back method present-value method or discounted rate of return method. Recently, the financial Profitability management is also faced with the problem valuation method. Their necessity arises during the contingencies of amalgamation, mergers and procurement of credit finance.

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Objectives of Financial Profitability Management

- To assist the management in policy decisions regarding distribution or retention of profits.
- Financial Profitability management can provide financial data to the management to facilitate planning, decision-making and control.
- Financial Profitability management can advise the management on all matters in the financial field.
- It helps in the development of overall planning and control.
- It reports the relationship between the various kinds of financial Profitability obtained by the business and the way in which this financial Profitability have been deployed.
- It can draw the attention of the Board of Directors to problem areas.
- Financial Profitability management maintains the smooth and economical running of the administrative procedure.

Financial Appraisal (Cost Estimates)

It is very important to ensure that all possible items of capital expenditure along with different contingencies are properly provided for:

- Preliminary, capital issue and mortgage expenses.
- Provision for cash losses in the early years of operation.
- The cost of land including development charges, and landscaping building, plant and machinery, furniture equipment and miscellaneous fixes assets etc., required for project including technical know-how and initial publicity expenses.
- Pre-operative expenses including interest on leans and installments of interest and principal on deferred payments, if any, payable during the construction period.
- Initial or nucleus working capital.
- Satisfactory provision for the escalation in price and contingency.

In deciding the amount or value of the projects costs, it is advisable to consider a conservative view and make implementation and unfavorable trends in costs. It is the practice to the Industrial Finance Corporation of India's to insist on a provision for contingency which is not less than 20 percent under the present day conditions on the items of cost for which prices of plant and machinery which can be foreign and may be separately provides for. Pre-operative expenses frequently exceed the original estimates mostly as result of delays in the execution of construction schedules. The assessment in this regard, and for initial cash losses which often deplete a concern's working funds or affect its liquidity, has to be made on a liberal basis.

The appraisal of the cost of the project has to be followed by an examination of the financial Profitability under which the projects is proposed to be financed such as:

- Deferred payment for the plant and machinery indigenous or imported.
- Public deposit.
- Share capital.
- Unsecured loans from promoters' etc.
- Long - term rupee loan these institutes or other term-lending institutions for the capital expenditure or from central or state government.
- Foreign currency loan or foreign exchange for financing the cost of imported plant and machinery.

Profitability Ratios

They are made to highlight the end-result of business operations which, in the imperfect world of ours, is the sole criterion of the over-all efficiency of a business unit. The important advantages of profitability, it is always necessary to bring into play at least three or four measures for a dependable analysis. This is very important because, owing to the different valuation histories and sale volume policies, any single profit measure by itself has severe limitations.

Advantages of Profitability Ratio Analysis

Ratio analysis can be particularly useful for tourism management because of the following:

- Ratio analysis simplifies the understanding of financial statements.
- Ratio analysis is useful to outsiders like creditors, investors as much as to insiders (i.e. the management) A creditor can obtain the extent of security that is available for the payment of the amount due to him through the computation and interpretation of accounting ratios, such as (current ratio, quick ratio and debt-equity ratio). An investor can know the past performance, present financial situation and the future prospects of the business through the calculation and interpretation of accounting ratio, such as return on capital employed, earning per share, etc.
- Ratio analysis relevant from the viewpoint of management, it is that it throws light on the degree of efficiency in the management and utilization of its assets. The solvency of a firm in the ultimate analysis is dependent upon the sales revenues generated by the use of its assets total as well as its components.
- Ratio analysis can be useful if accounting ratios prepared for a number of years, then a trend is established. This establishment of trend helps on preparation of plant for the future. For example expenses as percentage of sales can easily be forecast on the basis of sales and expenses figure of the past years,
- Ratio analysis is useful in locating the weak spots of the business. Accounting ratios are great assistance in locating the weak spots in the business even though the overall performance may be quite good. Management can the pay attention to the area of weakness and initiated remedial action. For example, if the firm finds that the increase in distribution expenses is more than proportionate to the result achieved, this can examined in detail and depth to remove any wastage that may be there.
- Ratio analysis facilitates intra-firm comparison. That is, it provides the necessary data for iner-firm comparison as well as intra-firm comparison. That is, it provides the relevant data for the comparison of the performance of the different departments of divisions of the same firm.
- Ratio analysis is very helpful in establishing standard costing system and budgetary control.

Conclusion

Financial Profitability Management is concerned with the management of financial Profitability. The present study concentrates on the evaluation of financial Profitability management in every organization in India so that the every organization can have a sound financial base. There are various ways in which a company may finance itself. The exact proportion of finance provided from each source of Profitability will differ from industry to industry, and from firm to firm. However, every organization are said to be capital-intensive because a lot of finance is needed for financing business. Before raising money, the management must compare and contrast the different financial Profitability and costs of the capital available. Although, organizations need funds before they can commence trading, they also need additional capital injections to provide planned expansion and growth.

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