

# A Comprehensive Study on Financial Planning and Forecasting

Narayan Kumar Shrestha<sup>1</sup> MBA

Post-Graduate Fellow

Institute of Business Management, Chhatrapati Shahu Ji Maharaj University

City: Kalyanpur, Kanpur-208024 (Uttar Pradesh) INDIA

**Abstract:-** Financial planning and forecasting is essential for large companies to manage financial decisions and to report accurate results internally and externally. Financial planning and forecasting is conducted by finance executives often led by the CFO (chief financial officer). The financial support of a corporation understands reporting requirements and establishes plans and policies to guide financial decisions regarding dividends, financing, investment and capital management.

Large companies have a need to establish guidelines for financial planning and policy. The guidelines are needed because corporations are typically managing large amounts of money and have obligations to employees and stockholders to carefully manage the money that is generated within the company. These obligations require corporations to employ internal and external financial experts to develop and implement financial decisions such as financing, investment, dividends and maximizing the use of funds created.

Experts have postulated a relationship between financial policy and the ability to create wealth for stockholders. There is a verified relationship between certain types of financial decisions such as research and development, debt financing, investment and dividends. Financial managers are central to corporate governance, and in addition to expertise in financial areas, these individuals must also possess a high-level sense of ethics to ensure that the decisions they make will be honest and straightforward. Financial planning is necessary because without it companies may lose money and jeopardize the survival of the organization

The study has been conducted with the purpose of getting in-depth knowledge about the Financial Planning and forecasting management procedure in companies for the above said purposes.

**Keywords:-** Scope and Objectives of Financial Management, Time Value of Money, Financial Analyses and Planning, Financial Decisions, Investment Decisions, Management of Working Capital.

## I. INTRODUCTION TO FINANCIAL PLANNING

Financial planning is a ceaseless procedure of guiding and designating financial assets to meet strategic goals and targets. The yield from financial planning appears as budgets. The most generally utilized type of budgets is Pro Forma or Budgeted Financial Statements. The establishment for Budgeted Financial Statements is Detail Budgets. Detail Budgets incorporate sales conjectures, production figures, and different gauges in help of the Financial Plan. On the whole, these budgets are alluded to as the Master Budget.

We can likewise separate financial planning into planning for tasks and planning for financing. Working individuals center around sales and production while financial planners are keen on the best way to back the tasks. In this manner, we can have an Operating Plan and a Financial Plan. Be that as it may, to keep things basic and to ensure we incorporate the procedure completely, we will consider financial planning as one single procedure that includes the two tasks and financing.

Financial Planning begins at the highest point of the organization with strategic planning. Since strategic choices have financial ramifications, you should begin your planning procedure inside the strategic planning process. Inability to interface and associate planning with strategic planning can result in budgets that are "dead on landing."

Strategic planning is a formal procedure for setting up goals and targets as time goes on. Strategic planning includes building up a statement of purpose that catches why the organization exists and plans for how the organization will flourish later on. Strategic targets and relating goals are created dependent on an exhaustive evaluation of the organization and the outer condition. At last, strategic plans are executed by building up an Operating or Action Plan. Inside this Operating Plan, we will incorporate a total arrangement of financial plans or budgets.

## 1.2.2. REVIEW OF THEORIES

### 1.2.1 Agency Theory

Agency theory is coordinated at the pervasive agency relationship, in which one gathering (the principal) delegates work to another (the agent), who plays out that work. Agency theory is worried about settling two problems that can happen in agency relationships. The first is the agency

problem that emerges when (a) the wants or goals of the principal and agent strife and (b) it is troublesome or expensive for the rule to check what the agent is really doing. The problem here is that the principal can't confirm that the agent has carried on suitably. The second is the problem of risk sharing that emerges when the principal and agent have distinctive frames of mind towards risk. The problem here is that the standard and the agent may lean toward various activities in light of the diverse risk inclinations (Eisenhardt, 1989).

### 1.2.2 Modern Portfolio Theory

Modern portfolio theory is a theory of fund that endeavours to boost portfolio expected return for a given measure of portfolio risk, or identically limit risk for a given dimension of anticipated return, via cautiously picking the extents of different assets.

Modern portfolio theory affirms that organizations pick ventures dependent on limited future expected returns and that for greatest risk balanced returns firms ought to differentiate crosswise over enterprises and resource classes. It was essentially a procedure for delivering balanced portfolios. On the business front it has helped financial chiefs to think of a balance portfolio of ventures through the financial planning procedure of verifying and utilizing capital assets on assets that will produce ideal returns (Markowitz, 1952).

**Exchange off Theory** The exchange off theory of capital structure alludes to the possibility that a company picks how much obligation money and how much equity fund to use by adjusting the costs and advantages. The traditional rendition of the speculation returns to (Kraus and Lichtenberger, 1973) who considered a balance between the dead-weight costs of bankruptcy and the expense sparing advantages of obligation. Regularly agency costs are additionally incorporated into the balance. A critical motivation behind the theory is to clarify the way that enterprises for the most part are financed somewhat with obligation and incompletely with equity. It expresses that there is an advantage to financing with obligation, the tax reductions of obligation and there is an expense of financing with obligation, the costs of financial misery including bankruptcy costs of obligation and non-bankruptcy costs (for example staff leaving, providers requesting disadvantageous payment terms, bondholder/investor infighting, and so forth.). The negligible advantage of further increments owing debtors cost decays as obligation increments, while the peripheral cost increments, so a firm that is streamlining its general esteem will concentrate on this exchange off while picking how much obligation and equity to use for financing (Miller, 1977).

Financial planning is a method for amassing the assets important to start another movement. It gives the premise to proceed with task and outfitting extra capital, taking care of the costs of activity and by and large synchronizing the different components of a going business. Fundamental these two capacities is the definition of approach, which gives an ability to read a compass and real arrangement of

activity. Organization of these capacities is imperative for a wide range of business units, particularly in private endeavors where little and medium scale speculations are a lot higher. It is important to sort out the financial planning capacity in such a way that should help the business in accomplishing its essential targets with least costs (Pandey, 1985).

Exhaustive financial planning is required to screen financial ability after some time so as to most beneficially work the organization. Proprietors try to expand benefits paying little respect to the duty status of the organization not for benefit or financial specialist claimed. While organizations that don't create an arrival on assets in overabundance of their expense of capital are in risk of financial disappointment various regions of financial execution are regularly used to screen resource efficiency. One overwhelming screen of financial execution is return on capital utilized (ROCE) which is likewise broadly utilized in different enterprises (Beith and Goldreich, 2000).

Numerous vast organizations are utilizing the new or contemporary financial planning and control frameworks. Some independent venture administrators are likewise searching for data on the most recent administration frameworks since they understand that they have to build up their abilities and instruct themselves. Private companies that work in questionable and focused situations need to plan and control their activities since this will support proprietors/supervisors to maintain their businesses effectively (Hogsett, 1981).

Capital force, the measure of capital required for activities was contrarily identified with financial execution as most organizations in beginning periods of advancement required more noteworthy capital before getting to be built up, and less once they turned into a develop substance.

### The Monte Carlo risk

Simulation was viewed as a method for depicting vulnerability anticipating a superior perspective of potential results. It demonstrated that simulation examination has application in planning, forecasting, and different regions of financial displaying, and ought to be a piece of a far reaching procedure of financial planning (Langabeer, 1998).

One region that has gotten little consideration in the foundation of strategies, particularly in the investigation of miniaturized scale, little and medium-sized endeavours, is that of financial choices, despite the fact that it is a determinant of business intensity. Financial examination and planning, which speak to fundamental highlights that help organizational technique, are in any case for all intents and purposes non-existent in miniaturized scale and little ventures, which force a requirement on the sort of financial choices businesspeople, can take. Financial technique speaks to a way to accomplish and keep up business intensity and position a company as a world class organization. Financial strategies are goals, examples or options intended to enhance and enhance financial

management so as to accomplish corporate outcomes (Lopez, 2006).

An investigation on the design theory and company's asset based view to comprehend the relationship between strategic financial planning and the company's execution. Their discoveries additionally give fractional help to a positive relationship between strategic financial planning and forecasting. Be that as it may, they inferred that this relationship is directed by organizational phase of advancement and that it is helpful to beginning time firms. The fundamental reason for these ends depend on the advancement upper hands given by the structure and the future reasoning incorporated into the strategic procedure and the non-manageability and disintegration of these advantages in late stage firms, whose forms are progressively inclined to impersonation (Sarason, 2003).

### 1.3. APPRAISAL METHODS:

Before any method of appraisal can be connected, it is important to recognize the energy saving chances and accumulate all the suitable information. Every one of the costs and advantages must be built up and the timeframe over which this will happen. This will yield the income for the project and help to manufacture the case.

**Simple Payback** is the simplest method of assessment yet additionally the crudest and it very well may misdirect. If we take the following project (Project X) where an Rs.10,000 investment is made today (Year 0) with savings of Rs.5,000 per year achieved over 3 years.

Year	Capital Cost (Rs.)	Savings (Rs.)
0	(Rs.10,000)	-
1		Rs.5,000
2		Rs.5,000
3		Rs.5,000

Payback is defined as the capital cost divided by the annual savings.

$$\text{Payback (Years)} = \frac{\text{Capital Cost}}{\text{Annual Savings}}$$

$$\text{Payback} = \frac{\text{Rs.10,000}}{\text{Rs.5,000}} = 2.0 \text{ years}$$

**Advantages of Payback:** Payback is simple to figure, straightforward, is communicated in unmistakable terms (years). Likewise, it doesn't require any suppositions about the project lifetime or interest rates.

**Disadvantages of Payback:** Payback has the disadvantage of not considering savings accomplished after the payback time frame. Likewise the time estimation of money is disregarded (for example Rs.5,000 spared in 3 years' time is worth under Rs.5,000 spared today). At long last, toward the finish of the project life no record is taken of any leftover capital resource esteem.

Payback basically demonstrates when the cash flow winds up positive.

Be that as it may, in numerous organizations payback is utilized as a method of sifting through 'great' from 'poor' projects. This can prompt genuine mistakes. For instance whenever looked with following decision between Project X and Project Y.

	Project X	Project Y
Capital	Rs.10,000	Rs.10,000
Annual savings	Rs.5,000	Rs.4,500
Payback	2 years	2.2 years
Project Life	3 years	10 years

In the event that the investment sum accessible is constrained to Rs.10,000, a decision must be made. On a simple payback premise the decision is Project X. Be that as it may, in the event that the life of the two projects is considered: at that point Project Y will obviously be more alluring than Project X over a multi-year period, on the grounds that a lot of savings are made after the payback period.

### 1.3. Discounted Appraisal Methods

Discounted assessment methods consider the time value of money, life of the project, interest rates and different factors. A key reason for discounting is to consider that the value of a sum to be gotten one year from now is less than the value of a similar sum got today.

For example, if Rs.935 were deposited in a bank at an interest rate of 7%, one year from now the value would be Rs.1000. This is calculated from a compound interest formula:

$$\begin{aligned} S &= A(1+r)^n \\ A &= \text{initial sum} \\ S &= \text{sum accumulated after 'n' years} \\ r &= \text{interest rate} \end{aligned}$$

$$\text{So } S = 935(1+0.07)^1 = \text{Rs.1000}$$

If we have energy saving project which delivers savings of Rs.1000 one year from now it is helpful to know what they would be worth in today's money. This can be done by rearranging the above formula to:

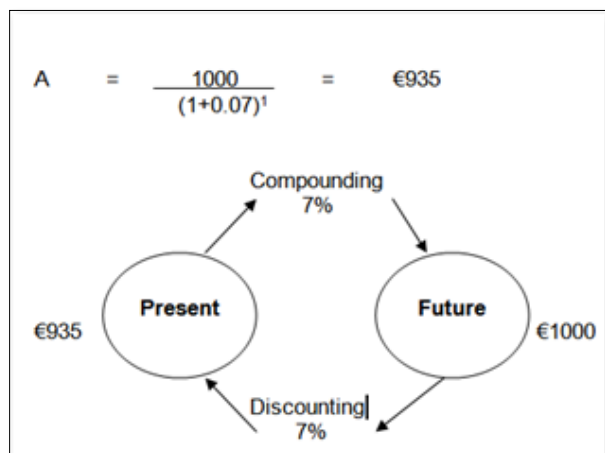
$$A = \frac{S}{(1+r)^n}$$

$$A = \text{today's (present) value of Rs. received in 'n' years' time}$$

$$r = \text{discount rate}$$

$$S = \text{forecast savings in year 'n'}$$

So if a project delivers Rs.1000 saving a year from now, then at a discount rate of 7% then it is worth in today's money:



The motivation behind discounting future savings in every year in the project life is to get every one of the savings gathered in a typical time currency of today's value or "present value". At the point when included they represent the **gross present value**. In the event that the capital expense is deducted we have the **net present value** or NPV.

If we return to Projects X and Y and using a nominal discount rate of 13% we can calculate the NPV of each project:

#### Project X

Year	Capital Expenditure	Savings	Discount Factor at 13% Discount Rate	Present Value
0	(Rs.10,000)	-	1.0	(Rs.10,000)
1		Rs.5000	0.885	Rs.4425
2		Rs.5000	0.783	Rs.3915
3		Rs.5000	0.693	<u>Rs.3465</u>
			Net Present Value	<u>Rs.1805</u>

#### Project Y

Year	Capital Expenditure	Savings	Discount Factor at 13% Discount Rate	Present Value
0	(Rs.10,000)	-	1.0	(Rs.10,000)
1		Rs.4500	0.885	Rs.3982
2		Rs.4500	0.783	Rs.3523

3		Rs.4500	0.693	Rs.3118
4		Rs.4500	0.613	Rs.2758
5		Rs.4500	0.543	Rs.2443
6		Rs.4500	0.480	Rs.2160
7		Rs.4500	0.425	Rs.1912
8		Rs.4500	0.376	Rs.1692
9		Rs.4500	0.333	Rs.1498
10		Rs.4500	0.295	<u>Rs.1327</u>
			Net Present Value	<u>Rs.14,413</u>

The **Net Present Value** is a financial proportion specifically compelling to financial directors. It reveals to them what the project will gain over its costs in today's money over its normal lifetime. The NPV of a project should be positive to be a reasonable choice. In contrasting Project X and Project Y, at that point Project Y gives an a lot more noteworthy NPV and in this manner is increasingly alluring. A key issue to consider is the risk that the life of Project Y is fundamentally more (for example 10 years) and the building might be repaired, sold or pulverized amid this multi-year period.

**Selecting Discount Rates:** The suitable discount rate can be appeared, from the utilization of further developed financial theory, to be the expense of capital, for example interest which must be paid on obtaining the money to put resources into the project. This thought is similarly new and over a few years utilization of the expression "cost of capital" has been uprooting the expression "discount rate". Open area bodies regularly utilize a settled discount rate. In the private division it merits asking the money/accounting office what discount rates they use for NPV figurings.

**Internal Rate of Return:** If we take Project X and continue rehashing the computation utilizing higher discount rates the Net Present Value diminishes and passes zero to wind up a negative number. This happens somewhere in the range of 23% and 24% discount rate.

The discount rate which yields a NPV = 0 is huge. It characterizes the Internal Rate of Return.

Internal Rate of Return (IRR) is characterized as the discount rate at which the Net Present Value diminishes to zero.

Usually utilized as a financial measuring stick in organizations with no specific approach on discount rates, in which case it is beyond the realm of imagination to expect to compute NPVs.

The Internal Rate of Return is critical in that it generally represents the rate of return money would need to win in the organization or remotely to be a superior



investment. The higher the IRR the better. IRRs enable projects or investments to be thought about.

The IRR can be contrasted and the present interest rate for obtaining the capital required. On the off chance that the IRR is lower than this interest rate, the project would free money on the off chance that it was financed by obtaining. On the off chance that the IRR is more prominent than the expense of getting the capital, the project will generate enough pay to reimburse the credit and still give benefit.

### Sensitivity Planning

In evaluating a project, a portion of the quantitative parts of the project may not be known at first and along these lines are assumed or assessed. Sensitivity planning is the procedure by which these evaluations are tried to figure out what impact they may have on the value of a project.

For example for Project Y if the project life and discount rate stay settled yet the capital costs and the yearly savings fluctuated it is conceivable to see the impact of the adjustments in the NPV.

#### Project Y

Capital Rs.	Annual Savings	Project Life (years)	Discount Rate	NPV
Rs.10000	Rs.4500	10	13%	Rs.14413
Rs.15000	Rs.4500	10	13%	Rs. 9410
Rs.10000	Rs.4000	10	13%	Rs.11700
Rs.15000	Rs.4000	10	13%	Rs. 6700

By fluctuating key parameters it is conceivable to test the sensitivity of the project. All things considered, decision producers will make inquiries about sensitivity, for example

"The end result for the NPV if the price of gas increases by 15%?"

It is well worth envisioning questions and perhaps pre-empting them amid a written or verbal presentation to show to the decision-producers that you know about the impact on the project by varieties in key parameters.

## II. FINANCIAL INVESTMENT DECISIONS

An investment requires consumption on something today that is relied upon to give an advantage in the future. The decision to make an investment is critical in light of the fact that it infers the desire that use today will generate future cash gains in genuine terms that extraordinarily surpass the funds spent today.

For the accountant an investment shows up on the assets side of the balance sheet under fixed assets. For the fund executive an investment is any decision that suggests consumption today with the desire that it will generate cash inflows tomorrow.

Investment decisions are critical on the grounds that they are constantly worried about the future survival, thriving and growth of the organization. The organization's essential objective of augmentation of investor riches is a fundamental assumption that keeps on remaining constant. Investments must be made both to keep up investor riches and to expand it. To meet the investor riches expansion objective it is urgent that those dealing with the organization settle on the best decisions that depend on the best information accessible and utilization of the most proper appraisal techniques.

At the corporate dimension investment (in offers) identifies with the sum that investors are eager to put resources into the equity of a company in the desire for future cash flows as profits and upgrade of offer price. The dimension of future profits and offer price improvement are thusly needy to what degree the company can streamline returns on 'genuine' (investment in organizations, plant, apparatus, and working capital) in new items, projects, new business, etc. Investment may show up inside fixed assets to be determined sheet, for example, land structures, plant, hardware, and so on. It might likewise show up in the benefit and misfortune account as far as advertising, staff preparing, or innovative work.

An investment decision should be one that investors and loan specialists would be content with; it is one that is required to give foreseen gains in genuine terms that incredibly surpass the funds spent today, at the end of the day a decent return on the money contributed. Generally the investment ought not to be made.

### Investment appraisal criteria

There are five main criteria use to appraise investments, the last three being discounted cash flow (DCF) techniques:

- the accounting rate of return (ARR) for assessing capital investment projects depends on benefits and the costs of investment; it fails to assess cash flows or the time value of money
- the payback method for assessing capital investment projects depends on cash flows, yet additionally overlooks the time value of money
- net present value (NPV) is one of the two most broadly utilized investment decision criteria that depend on cash flow and the time value of money
- internal rate of return (IRR) is the other of the two most generally utilized investment decision criteria that depend on cash flow and the time value of money
- the discounted payback appraisal method is likewise founded on cash flow and the time value of money

### Accounting rate of return (ARR)

ARR is a simple measure which is here and there utilized in investment appraisal. It is a type of return on capital utilized. It depends on benefits instead of cash flows

and disregards the time value of money. ARR might be calculated utilizing:

$$\frac{\text{Average accounting profit over the project}}{\text{Initial investment}} \times 100\%$$

ARR is a simple method to utilize yet it isn't recommended as an essential appraisal method. The method can give a 'diagram' of another project yet it comes up short on the advancement of different methods.

### **Payback**

Payback is characterized as the quantity of years it takes the cash inflows from a capital investment project to measure up to the cash outflows. An organization may have an objective payback period, above which projects are rejected. It is valuable and at times utilized as an underlying screening project in evaluating two fundamentally unrelated projects. The project that pays back in the briefest time may then on its substance be the one to acknowledge.

As with ARR, in spite of the fact that its utilization is across the board among organizations, payback isn't recommended as an essential appraisal method, since it likewise overlooks the time value of money.

**Key principles underlying investment selection criteria: cash flow, the time value of money, and discounted cash flow (DCF)**

'£1 got today is worth more than £1 gotten in a years' time' is an outflow of what is implied by the 'time value of money'.

The standards fundamental the investment appraisal techniques of NPV; IRR; discounted payback, are cash flow (instead of benefit), the time value of money, and discounted cash flow (DCF).

### **CASH IS KING**

**Real funds flows can be found in cash yet not in accounting profit.**

**Interest charges wind up payable when money is made accessible, for example, from a loan specialist to a borrower, not when an agreement is made or a contract is agreed upon.**

### **TIME VALUE OF MONEY**

**Receipt of £100 today has greater value than receipt of £100 in one years' time.**

**There are two reasons for this:**

**The money could have been then again put resources into state risk-free Government plated edged securities – in truth the real rate of interest that should be paid will be higher than the Government rate, to incorporate a risk premium, on the grounds that neither organizations nor people are risk-free borrowers. For the most part,**

**the higher the risk of the investment, the higher the return the financial specialist will anticipate from it.**

**Purchasing force will have been lost over a year because of inflation.**

### **DISCOUNTED CASH FLOW (DCF)**

**Whichever of the three methods of appraisal is utilized: NPV; IRR; or discounted payback, a method of discounting the projected cash flows of the project is utilized to find out its present value. Such methods are called discounted cash flow or DCF techniques. They require the utilization of a discount rate to complete the suitable calculation.**

The strategy of discounted cash flow (DCF) discounts the projected net cash flows of a capital project to find out its present value, utilizing a fitting discount rate, or cost of capital.

Utilizing  $i$  to represent the expense of capital (the discount rate), and the quantity of periods for example a long time, the present value discount factor is:

$1/(1+i)^n$  Where  $i$  may have a value from 0 to infinity  
If we consider a project where the initial investment in year 0, is  $I$ , and each subsequent years' net cash flows are  $CF_1$ ,  $CF_2$ ,  $CF_3$ ,  $CF_4$  and so on for  $n$  years up to  $CF_n$ , and the cost of capital is  $i$ ,  
Then the present value of the cash flows

$$= -I + CF_1/(1+i) + CF_2/(1+i)^2 + \dots + CF_n/(1+i)^n$$

The present value of the cash flows using an appropriate cost of capital is called the net present value or NPV.

### **Net present value (NPV)**

NPV is today's value of the distinction between cash inflows and outflows projected at future dates, owing to capital investments or long haul projects. The value now of these net cash flows is gotten by utilizing the discounted cash flow method with a predefined rate of return.

### **Internal rate of return (IRR)**

The NPV of a capital investment project is calculated by:

- discounting utilizing a rate of return, discount rate, or cost of capital, to acquire
- the contrast in present values between cash inflows and cash outflows

The internal rate of return (IRR) method computes:

- the rate of return, where

- the contrast between the present value cash inflows and outflows, the NPV, is zero

Through this calculation, the IRR gives the accurate rate of return that the project is relied upon to accomplish. An organization would then embrace the project if the normal rate of return, the IRR, surpasses its objective rate of return.

IRR may most effectively be resolved graphically through introduction or extrapolation, which assumes a straight relationship between the NPVs of a capital investment project, determined utilizing distinctive discount rates. NPVs of a project are calculated utilizing two discounts rates. The IRR of the project is the discount rate where the line drawn through the calculated NPVs cuts the even pivot of the chart.

The IRR may likewise be resolved utilizing the proper spreadsheet work, utilizing Excel for example.

### NPV or IRR?

Which is the better method for the appraisal of capital investment projects?

IRR is generally straightforward especially for non-financial managers. It tends to be expressed in wording that does exclude financial language, for example 'a project will cost £1m and will return 20% per annum, which is superior to the company's target of 15%'. Though, NPV isn't exactly so clear, for example 'a project will cost £1,000,000 and have a NPV of £250,000 utilizing the company's weighted expense of capital of 12%'.

There are three noteworthy disadvantages with the utilization of IRR:

IRR overlooks the span of investment projects:

Two projects may have the equivalent IRR, yet

One project may return commonly the cash flow returned by the other project, thus

The projects whenever judged exclusively on IRR may appear to rank similarly

- ♦ if project cash flows don't pursue the standard thing 'outflow toward the beginning of the project pursued by inflows over the life of the project' the outcome might be at least two IRRs, which can prompt vulnerabilities and challenges in translation
- ♦ IRR should not be utilized to settle on fundamentally unrelated projects as a result of its failure to take into consideration the general size of investments

On the off chance that totally unrelated projects should be thought about, at that point the accompanying standard for acknowledgment applies:

- ♦ Is the IRR more prominent than the hurdle rate? Provided that this is true, then the project with the most astounding NPV should be picked assuming the NPV is more noteworthy than zero
- ♦ A company might consider various projects in which it might contribute. On the off chance that there is a constrained measure of funds accessible, at that point capital apportioning is required. This method requires

ranking of the contending projects as far as NPV per each £ of investment for each project. Investments may then be allotted by NPV rankings, given the assumption that the investments are boundlessly distinguishable.

### Discounted payback

The discounted payback appraisal method requires a discount rate to be picked and after that the payback is the quantity of years required to reimburse the first investment.

### Different factors influencing investment decisions

Various further factors may additionally affect the investment criteria calculations:

- ♦ the impact of inflation on the expense of capital
- ♦ whether extra working capital is required for the project
- ♦ the length of the project
- ♦ taxation
- ♦ risk and vulnerability

### Risk and vulnerability and decision-production – sensitivity Planning

There might be various risks related with every one of the factors incorporated into a capital investment appraisal decision: evaluations of introductory costs; vulnerability about the planning and values of future cash incomes and costs; the length of project; varieties in the discount rate.

Genuine results as a rule vary extensively from anticipated results. As far as capital investment, the more prominent the timescale of the project the additional time there is for more things to turn out badly; the bigger the investment, the more noteworthy might be the impact.

As a last advance in assessment of the investment in a project it is judicious to do a type of sensitivity Planning. Sensitivity Planning might be utilized to survey the risk related with a capital investment project. A project having a positive NPV may on its essence appear to be feasible. It is helpful to compute how much the NPV may change should there be changes to the factors utilized in the appraisal work out.

A similar technique of sensitivity Planning might be utilized as an early cautioning framework before a project starts to demonstrate a misfortune.

There are restrictions to the utilization of sensitivity Planning: at least two factors may change at the same time; there might be a nonattendance of clear principles overseeing acknowledgment or dismissal of projects, which require the emotional judgment of management.

### Control of capital investment projects

When a project has been appraised and sensitivity Planning conveyed and the endorsement has been given at the applicable dimension in the organization, project controls must be set up and after that post project finish reviews

completed. The controls spread the three fundamental zones of:

- ♦ capital spend - note the quantity of abstract territories where things can turn out badly
- ♦ project timing - delays have all the earmarks of being 'standard' in many real projects as evidenced practically day by day in the financial press
- ♦ benefits - confirm nearly as much of the time in the financial press, this is another area where things may not turn out as arranged

To build up the suitable dimensions of control, the arrangement of a decent project administrator with the fitting dimension of obligation and expert, together with normal project surveys, are outright basics to guarantee that projects raced to design.

A decent project administrator set up can't be over-accentuated. He/she should guarantee that normal advantages really appear and are as expansive in value as foreseen. The project supervisor should likewise guarantee that costs are kept in accordance with desire.

Post usage reviews should be completed for all projects if conceivable. Albeit after the occasion remedial move can't for the most part be made, differences might be broke down to utilize the project as information and learning instrument:

- ♦ to appraise director execution
- ♦ to distinguish strengths and weaknesses in the forecasting and evaluating techniques
- ♦ to distinguish zones of enhancement in the capital investment process
- ♦ to advertise the way that project and director execution are being monitored

### III. ADVANTAGES AND DISADVANTAGE OF FINANCIAL FORECASTING

- ♦ Allows the advertisers to embrace projects without depleting their capacity to get sum for customary projects.
- ♦ Limits financial risks to a project to the measure of equity contributed.
- ♦ Enables raising more debts as banks are certain that cash flows from the project won't be redirected for other corporate employments.
- ♦ Provides more grounded motivating forces for cautious project assessment and risk evaluation.
- ♦ Facilitates the projects to experience cautious specialized and monetary audit.
- ♦ Eliminates the reliance on elective nature of financing a project.
- ♦ Facilitates the course of action of risk financing and credit enhancement, available to the project however inaccessible to the project support.
- ♦ Enables the expansion of the project support's investments to lessen political risk.

- ♦ Gives progressively motivating force for the bank to cooperate in an atmosphere of a pained loan.
- ♦ Enables to have drawn out credit openings.
- ♦ Matches explicit assets with explicit liabilities.

Financial Forecasting primarily benefits parts or businesses where, projects are organized as a separate element, aside from their sponsors. Give us a chance to take the example of an independent production plant. This is evaluated in accounting and financial terms separately from the sponsors' different exercises. For the most part, such projects will in general be moderately immense as a result of the time and other exchange costs associated with organizing, and as a result of the extensive capital hardware that needs long haul financing. In the financial segment, on the other hand, the huge volume of fund that flows specifically to building up countries' financial establishments has kept on being a piece of the typical corporate loaning kind.

All these don't imply that Financial Forecasting is without any disadvantages.

The real disadvantages of Financial Forecasting are:

- ♦ Complexity of the procedure because of the expansion in the quantity of gatherings and the exchange cost.
- ♦ Expensive as the project improvement and determination process is a costly affair.
- ♦ Litigious with respect to dealings.
- ♦ Complexity because of extensive documentation.
- ♦ Requires expansive risk Planning and assessment to be performed.
- ♦ Requires qualified individuals for playing out the convoluted strategies of Financial Forecasting.
- ♦ Obligations with respect to the trust finance account need to plainly indicate.
- ♦ Higher dimension of control which may be practiced by the banks, which may carry struggle with the businesses or contracts.

### IV. PROJECT FUNDING TECHNIQUES

Project approach could be connected for a little investment or a huge investment. It is a flexible approach to investment wherein each 'project' is viewed as a free unit having its own costs and advantages. Watchful project arrangement and Planning is essential for proficient utilization of financial assets. In the changed condition and in the wake of financial area changes, the significance of project approach has additionally expanded. The need and significance of project approach, the project cycle and its different stages, discounted cash flow techniques and imperative reasonability parameters like NPV, BCR and IRR are currently talked about.

#### Project Approach:

- The word 'projects' has distinctive meanings in various settings. In general, project implies an area explicit action with explicit objectives, time and cost limitations



and of non-dreary nature. With regards to financing and managing an account, a project is viewed as an investment movement, in which financial assets are utilized for making capital assets that produce benefits over an all-inclusive period of time.

- From this definition, setting up of a poultry ranch is a project yet cultivation of field crop like wheat or paddy isn't a project in light of the fact that in a poultry ranch, the investment prompts a flood of income over some undefined time frame, while the consumption on cultivation of wheat or paddy prompts production of crop amid a specific season and not past. Since projects are worried about creation and securing of capital assets, it is additionally, now and again, called capital use or capital investment or capital project. Another term utilized is 'plot', yet a plan is littler in scale than a project.
- There are two kinds of costs - 'investment' cost and 'production' costs. An investment cost in one project might be a production cost in the other. For example, manure is a production cost in paddy however is investment cost in a project where rubber estate is taken up, which sets aside some opportunity to begin yielding and after that generates income amid next quite a while. In this way, the main distinction which recognizes the two is the time length amid which the income is generated.
- Projects could be comprehensively of two kinds, development of existing units and setting up another unit. There could be a zone advancement project or individual project. In region advancement projects, the unit cost and the investment things stay pretty much the equivalent or standard yet extensive number of such units are financed, e.g., when Rubber Board readies a project for building up a region (covering 2-3 states) for rubber manor, it comprises of a few littler units (at least one unit for every rancher) of standard investment. The individual borrower situated projects are for the most part commercial in nature and could be executed by individual, corporate or association firms; the business visionary readies the project according to his prerequisite. Examples of such projects are a commercial poultry project and horticulture project.

### Significance and Advantages of Project Appraisal

- Project Appraisal is essential as assets (particularly financial) for improvement are rare. By project Planning needs are fixed. The advantages and costs for each project can be distinguished and practicality of the project figured. Being a free unit, it tends to be intently monitored and followed up separately. Hence, accountability and duty can be fixed which is troublesome in different cases. The project format gives a thought of costs on year to year premise with the goal that the individuals who need to give the assets can plan to the equivalent. The project Planning draws out the impact of the project on different 'members' or influenced gatherings, with the goal that the unfavourably

influenced gatherings could be reasonably redressed. The Project Approach investigations sensitivity and risk parts of the project and shows the impact of such risk factors on return on investment and profitability. The project format energizes deliberate examination and choice of the most ideal option.

### Limitations of the Project Format

The project approach has a few advantages yet it isn't free from limitations, The limitations are: a) distinguishing costs and advantages of project and measuring them, b) quality and dependability of information utilized in project Planning, c) legitimacy of techno-monetary parameters assumed for Planning, d) change in innovation amid the implementation of the project, e) trouble in risk evaluation, f) unanticipated changes in prices influencing the project gauges.

Regardless of a few limitations, project approach is helpful in distinguishing the best project among a few choices. Nonetheless, the decision for investment in a project depends on the judgment of those, in charge of the evaluation of the project. Project Planning is a helpful device for landing at a judgment in an increasingly deliberate way.

### Project Cycle

Project cycle has five stages – distinguishing proof, definition, appraisal, implementation and monitoring and evaluation.

- (i) Identification: Identification could be from a few sources: dynamic agriculturists, business visionaries, specialized specialists, nearby pioneers, financiers, broad communications, expansion offices and national strategies and plans.
- (ii) Formulation: Preparation of achievability examine is the initial phase in Planning. Propelled techniques of project planning like Program Evaluation and Review Techniques (PERT) and Critical way Method (CPM) are utilized in capital serious and complex project and those with longer development period (the period between beginning of implementation of the project and income age).
- (iii) Appraisal: After arrangement, each project is appraised by a free agency. This incorporates Planning and investigation of every single viewpoint, subtleties and assumptions made in the project. Generally banks need to attempt the appraisal of project before financing. The appraisal is likewise doled out to particular organizations if there should arise an occurrence of complex project. The appraisal is led from a few viewpoints like specialized, financial, commercial, administrative, monetary, distributive and natural. Indeed, even inside Financial Planning, there are different kinds of Planning.
- (iv) Implementation: Implementation essentially implies making an interpretation of the proposition into a ground level project. The periods of the implementation are: a) pre advancement stage, this

includes getting enlistment, licenses and loan payment, b) improvement stage, development of structures and beginning up of production, and c) operational stage begins with production and finishes up when the monetary existence of the project reaches an end.

- (v) **Monitoring and Evaluation:** The last stage in project cycle is the monitoring and evaluation. Monitoring monitors the project, generally done by gathering certain execution markers about the project to check whether the project is performing as indicated by the arrangement, distinguishing problem regions and discovering conceivable arrangements. There are two kinds of monitoring which banks embrace: a) work area monitoring dependent on gathered information and b) field monitoring, in light of real field visit. Evaluation is led to learn lessons of achievement and disappointment from the project. There are a few organizations (like NABARD or preparing foundations) which lead such evaluation thinks about and distribute them for more extensive dissemination.

### Technical Feasibility

This includes considering the agro-climatic reasonableness of the zone for the project, suitability of the picked hardware, apparatus and innovation, accessibility of crude material, control and different sources of info, fittingness of innovation browsed social perspective, accessibility of framework for the project, the techno financial assumptions and parameters utilized for breaking down costs and advantages and practicality arrangement for treatment of effluents, preparing of manpower, lawful necessity on documentation, permit and enlistment.

The technical plausibility is generally analysed by technical authorities in the organizations. If there should arise an occurrence of very particular projects, the banks look for suppositions or get the projects appraised through specialists like advisors, or organizations like Technical Consultancy Organizations (TCOs), NABARD and Development Finance Institutions.

### Organizational and Managerial Aspects

The organizational and administrative aspects assess the administrative limit of the organization or the business person, in charge of executing the project. Regardless of whether extremely great innovation is picked for the project, it might bomb because of absence of or deficient administrative ability. In little farming and different projects the business visionary is in charge of dealing with every one of these aspects. It is vital for the investor to pass judgment on the borrower's administrative ability and furthermore his financial capacity (worth). If there should be an occurrence of cost acceleration he should be in a situation to meet the extra financial necessity for the project.

### Commercial Aspects Including Marketing

Commercial aspects of a project incorporate course of action for supply of contributions for the commencement

and task of the project and marketing of yields. A few specialists like to have a separate marketing module and would regard it as the most essential part of appraisal. In this unique circumstance, a regularly utilized term is in reverse and forward linkages.

### Relationship of Backward and Forward Linkages with the Product

In reverse linkages are supply of data sources, work and such different things, which go into the production procedure. Forward linkages, vital after the production procedure is finished, are transporting, handling, stockpiling and marketing. Nonetheless, the nature of the linkage changes alongside the nature of the project, for example, handled milk is a forward linkage if there should arise an occurrence of a dairy plant, though it is a regressive linkage for a frozen yogurt manufacturing plant.

In marketing of yields, the essential issues are: a) request of the items at present and in future, b) showcase structure, division and rivalry, c) wellspring of interest - residential and send out, d) piece of the pie of the project, e) size of the market, regardless of whether sufficiently substantial to ingest extra production without influencing the price, f) linkage of household advertise with worldwide market, g) consumer conduct, h) price flexibility, and I) marketing courses of action, dissemination channels and approaches.

### Financial Planning

#### (an) Investment and Cash Flow Concept

The essential point of financial Planning is to decide if the project fulfils the investment criteria of producing worthy dimension of profitability. The project should most likely administration the obligation and guarantee anticipated that returns should the speculator. The imperative aspects which are analysed while leading Financial Planning are investment cost, methods for financing, projected financial statements, practicality and profitability, earn back the original investment point Planning, sensitivity Planning and risk Planning.

Cash flow articulation is the reason for financial Planning. In the underlying period there is a negative cash flow due to investment in capital assets, however after the project removes, the cash flow ends up positive because of the expanded income.

Investment is generally required in the underlying years, which is a cash outflow for the project. In the operational stage, there is inflow from the business, which results in positive cash flow till the project is twisted up. In the most recent year, the inflow is higher because of the lingering value adding to the cash inflow.

The period from beginning of the project till its twisting up is known as project life and will shift from project to project. Generally, projects with over 20 years life are dissected for financial expense and advantages for a long

time just, as the advantages gathering after that have an irrelevant present value.

### (b) Discounted Cash Flow Technique

A project typically having long life, the cash flow ranges over a significant lot. Since the value of money won't be the equivalent in all years, the cash flow of every single future year can't be dealt with similarly. The distinction in the 'value' of money emerges chiefly because of its ability to acquire on the off chance that it is contributed today. This is known as 'time value of money' and is an imperative idea in Financial Planning of projects. Time value of money is assessed by 'discounting' the future cash flows to their present value. One can 'decrease' future advantages and cost streams to their 'present worth' or 'present value' with the technique called discounted cash flow technique. This is improved by discovering discount factors which is processed by following formula:

$$d = \frac{1}{(1+r)^n} \text{ where } d = \text{discount factor}$$

for Re. 1 and  $r$  is the rate of interest

$n$  = Number of periods which could be years or months

Thus, the discount factor at 10 % per annum after one year will be

$$d = \frac{1}{\left[1 + \frac{10}{100}\right]^1} = \frac{1}{(1+0.1)^1} = \frac{1}{(1.1)^1} = 0.909$$

This discount factors of 0.909 means that Re. 1 which going to be received after 1 year will have its 'Present value' as Rs. 0.909 today. This computation can be done by using discount tables.

### Estimation of an Appropriate Discount Rate

The discount rate to be used in project Planning has to be based on opportunity cost or the weighted cost of borrowing. Thus, the discount rate should generate resources in future at a rate that will allow repayment of all borrowed funds and also a reasonable and acceptable rate of return to the entrepreneur.

The discount rate can be of two types – real and nominal. The real discount rate could be expressed as the discount rate after adjusting inflation rate.

$$\text{Thus, real rate of discount } (D) = \frac{(1+i)}{(1+p)}$$

Where  $i$  = Nominal Rate,

$p$  = Annual Average increase of prices.

In Indian conditions, in general, for agricultural and rural development project a rate of 15% was considered appropriate and was advised for computing Net Present Value (NPV) and Benefit Cost Ratio.

### (c) Measures of Financial Viability -- NPV, BCR and IRR

Financial viability is measured by net present value, advantage cost proportion, internal rate of return and obligation administration inclusion proportions.

Net Present Value (NPV) representing riches creation by the Project, is calculated by taking the discounted sum of the surge of cash flows amid the project life. In representative terms we can express NPV of a project as under:

$$NPV = \frac{C_1}{(1+r)} + \frac{C_2}{(1+r)^2} + \dots + \frac{C_n}{(1+r)^n} - \text{Invst.}$$

Where  $C$  = Cash Flows for different periods,  $r$  = Discount Rate and Invest. = Initial Investment

As such, NPV represents the contrast between the present value of the expense and advantage streams.

A project is viewed as suitable if the NPV is positive at a given discount rate and the other way around. Whenever at least two totally unrelated projects are being appraised, the project with the most elevated NPV should be chosen. Among the discounted techniques, NPV is viewed as the most essential parameter for evaluating viability

**(i) Benefit Cost Ratio (BCR):** BCR is the ratio of discounted value of benefit and discount value of cost. It can be expressed as under:-

$$BCR = \frac{\text{Summation of discounted value of Benefits}}{\text{Summation of discounted value of Costs}}$$

The project is viable when BCR is one or more than one and is unviable when it is less than one.

**(ii) Internal Rate of Return (IRR):** IRR represents the returns internally generated by the project. This is likewise the rate which makes the net present value equivalent to 0. The calculation of IRR is a procedure of experimentation. Ordinarily, the procedure begins with the base discount rate and as the discount rate is expanded the NPV will descend and winds up 0 or negative. In the event that NPV is positive at one rate and negative at the prompt next rate (for example if NPV is positive at 20% discount rate and is negative at 25%), 'Addition Method' could be utilized for discovering the careful IRR by the accompanying formula.

$$\text{Exact IRR by interpolation method} = \frac{L + (H - L) \times (\text{NPV at } L)}{\{(\text{NPV at } L) - (\text{NPV at } H)\}}$$

Where, IRR = Internal Rate of Return; L = Lower discount rate where NPV was positive; H = Higher discount rate at which NPV was negative.

The project is viewed as feasible if the IRR is more than the worthy rate for the business person which could be the open door cost for his funds. If there should be an occurrence of rural and provincial improvement projects

generally the endorsed IRR for viability is 15% in India and other creating countries.

#### ***(d) Sensitivity Planning, Scenario Planning and Risk Planning***

**Sensitivity Planning**  
Projects are delicate to change in values of basic variables like costs of data sources and prices of yields. It is critical to inspect how delicate is the project to vacillations in the values of these variables in light of the fact that the essential assumptions taken for projections of balance sheet, cash flow statements for future years have a component of vulnerability. Distinctive projects may, be that as it may, get influenced uniquely in contrast to changes in the assumption of expense and return things. Sensitivity Planning encourages us in discovering that how touchy is the project to these changes. Sensitivity Planning includes distinguishing proof of essential variable identifying with costs and returns, determination of elective values of the pivotal variables and re-calculation of the NPV and IRR by utilizing the elective values. A project, which is exceptionally delicate to even little changes in expense and price, is a risky project for financing.

#### **Situation Planning**

Sensitivity Planning deals with just a single or two variables which is now and again insufficient. This impediment is mostly overwhelmed by what is known as situation planning, where situation of specific prices, cost and different variables are made and the financial parameters are registered.

#### **Risk Planning**

Despite the fact that through sensitivity Planning and situation Planning techniques, a portion of the vulnerabilities in the project are taken consideration, both these kinds of Planning have constraint that they have deterministic values for the variables. In a huge enhancement over these methods, under risk Planning, probabilistic Planning is finished by recognizable proof of key risk variables, discovering values of each risk variable, relegating probabilities for each value to every one of the risk variables, utilizing these values for risk Planning and discovering the likelihood of negative result of the project, for example what is the likelihood that the NPV of the project will be negative.

The risk Planning adds profitable information to the project Planning and it is a critical instrument in this appreciation however to take up investment or not relies upon the risk taking limit of the business visionary which will fluctuate from individual to individual. In this manner, it is judgmental in nature.

#### **Monetary Appraisal**

The objective of monetary appraisal is to inspect the project from the whole economy's perspective to decide if the project will enhance the financial welfare of the nation. Monetary appraisal is generally not led in banks or financial institutions. It is generally directed by organizations like the World Bank and the advancement offices of the

Government for the projects having enormous investment and significant ramifications for the economy. Examples of the projects where monetary Planning is directed are huge dams, ranger service projects and enormous modern projects.

#### **Social/distributive Appraisal**

For a Planning of a project to be finished, it should incorporate the financial and monetary as well as social appraisal. The social Planning comprises of two sections: measurement of the appropriation of the income because of the project and distinguishing proof of the impact on the essential needs objectives of the general public.

The means engaged with social appraisal are: directing financial Planning, monetary Planning and appraisal of distributional impact of the net advantages (externalities) of the project. Here, the influenced gatherings like ranchers, merchants of the products, existing administrators and Government are to be recognized. One gathering (like agriculturists whose terrains will be flooded on account of a dam) is a gainer however the other (like the individuals who are dislodged because of the dam) is a washout.

After social and distributive Planning it might rise that a project is financially unviable however socially and monetarily is reasonable. In such circumstances the decisions to attempt the project would rely on the goals of the Government. In the event that the Government trusts that the positive externalities merit the negative financial cash flow, it might choose to execute the project.

#### **Environmental Aspects**

Creating countries including India are presently ending up progressively mindful of the criticalness to integrate environmental worries into their project formulations and appraisal. This has prompted the expanded significance being appended to the environmental aspects in the projects and now a large portion of the banks and financial institutions demand what is known as Environmental Impact Assessment (EIA). The embodiment of EIA is an expectation of the outcomes to the indigenous habitat from advancement projects.

The accentuation in EIA is on those outcomes of the projects which are generally outstanding and whose extents can be effectively evaluated. Contingent, unsure or probabilistic aspects of the impacts are not considered. Another elaborate Planning called Environmental risk Assessment (ERA) is utilized to separate another and extra Planning in which the probabilistic component is unequivocally tended to.

In India, the awareness has just come at the approach level. A separate service has been framed and Environment (Protection) Act, 1986 was passed by the Government of India. Further, Central Pollution Control Board (CPCB) has been framed for guaranteeing appropriate implementation of the arrangements of the Act. The majority of the ventures are secured by the Act and in this manner such enterprises need to look for freedom before setting up of businesses as



well as all the time from the state level PCBs. State level PCBs actualize the gauges set by CPCB. Save Bank of India has likewise coordinated the banks not to stretch out certain credit offices to businesses which effects affect the earth. Along these lines, environmental aspects of the projects are winding up essential in project appraisal.

## V. FINANCIAL PLANNING

The requirement for a summary of the accounts of a business undertaking was acknowledged from the earliest starting point of Accounting. Luca Pacioli, the creator of the main distributed accounting treatise demanded for the arrangement of summaries, which he called 'stock.' In the sixteenth century the summary of the accounts was made a basic piece of the record as an adjusting account. At the point when the business ventures were working on a little scale, the summary contained in the adjusting account was adequate to demonstrate the aftereffects of tasks which were alluded to by the owners or accomplices. As the business undertakings assumed bigger extents amid the last piece of the Nineteenth century and enterprises started to have numerous financial specialists, it wound up important to make duplicates of accounting summaries for appropriation to every one of the investors, thus the adjusting account was created into the contemporary balance sheet. The structures utilized today for arrangement of the financial statements were produced in the start of the twentieth century.

Until about the finish of the Nineteenth century, financial statements were viewed just as a proof of the accountant's work. By end of the Nineteenth century the bankers began demanding their customers to present the balance sheets on which they were basing their decisions for credit appraisals and endorsement. In February, 1895 New York State Bankers' Association received a goals demanding for getting a marked explanation of assets and liabilities from the borrowers to be broke down by them for their decision to support the credit. In 1900 the Association distributed a standard structure for application for credit which included space for a balance sheet. Certain bankers were utilizing relative statements moreover. A creator alluded: The statements must be altogether examined by the credit administrator by study and examination: their weaknesses looked for and their solid focuses noted – he should comprehend them completely.

With the progression of time, the models of correlation like demanding for certain base speedy proportion were produced. In the wake of saving money and credit, there was consciousness of dependence on information and objective planning of such information created among the speculators in ventures like railways, cars and others. Certain books and productions were distributed containing what they called modern logical methods. The Art of Wall Street Investing by John Moody distributed in 1906 merits referencing. Be that as it may, such Planning and dependence on intelligent accounting information was not trailed by every one of the bankers. This was brought out in the investigation of unique advisory group selected by Federal Reserve Board in 1910. The Federal Reserve framework was built up by Federal

Reserve Act, 1914 and rediscounting of the banks was permitted. In 1913 there was a revolt by the borrowers against the matchless quality of current proportion as a paradigm. In specific distributions, it was referenced that different things likewise should be considered by the bankers notwithstanding the present proportion. It was focused on that different ratios, further Planning of financial statements, business conditions and so forth are likewise pertinent.

The presentation of an elaborate arrangement of proportion Planning was made in 1919 by Alexander Wall, who distributed an article in which he scrutinized the bankers who based decisions as to giving of credit on current ratios alone. He called attention to that, so as to get a total picture, it is important to consider relationships in financial statements other than that of current assets to current liabilities. The relationships that he depicted may be measured quantitatively and utilized as keeps an eye on the present proportion. Divider ended up one of the chief advocates of proportion Planning and elaborated his methods in a few volumes. In 1923, the introduction to a book by James H. Happiness expressed that in each part of industry there are sure qualities financial and working ratios, contingent on the nature of its exercises. Such ratios may be dictated by averaging the ratios of the worries in the business and that to appreciate the normal measure of progress a worry must surmised these ratios.

Along these lines, there has been such a large amount of studies and upgrades in the subject of proportion Planning. This technique is utilized and depended by such a large number of investigators for different purposes and widely utilized by the best management staff, especially in the field of accounting, costing and money, in practically all enterprises.

The proportion measurements utilized in financial explanation Planning falls in two gatherings. (1) Those which measure the relationships among the things in a solitary arrangement of statements, and (2) those which measure the adjustments in these things in progressive statements. The first is a static Planning; estimating position at a point of time or for a period, the second is a dynamic Planning, estimating change of position.

In 1925 Stephen Gilman propounded an alternate kind of Planning. This was partitioning the sizes of huge things or gatherings of things in every one of a progression of statements by their extents in a single year in the arrangement chose as the base, therefore getting a progression of pattern relatives to the base year. This was patterning Planning. Gilman contended that pattern planning was comprehensive and presented wide perspective of the balance sheet relationships.

The historical backdrop of the growth of financial proclamation planning technique uncovers that it has been creating over a period of over eight decades. From the unrefined beginnings of unpleasant examination of statements to start with to the utilization of genuinely

unequivocal methodology, utilizing most recent logical methods for Planning has step by step developed. There are changed enhancements in the grouping, wording, course of action and presentations in the financial statements. As of late the yearly reports of surely understood organizations have changed from only formal, technical archives to alluring and interesting fortunes of financial and business insights. Rather than being coordinated only to the investors, the modern reports are additionally arranged to interest general open, clients, government agencies, lenders, financial specialists and the workers. The reports contain financial statements and different measurements, yet additionally stories concerning the company's exercises, future projects, monetary setting of the company, strengths, representatives, innovation, profitability and future strategy and vision of the company.

In the later piece of the twentieth century, the substance and presentation of the company yearly reports have been completely enhanced and recast to address with the issue of the time, to ensure the speculators just as to enhance the utility of yearly financial statements and the yearly reports. Executives report, Management talk and Planning, MAOCARO review report (presently CARO Report, 2003), subtleties of innovation, energy discussion, different notes and subtleties covering the corporate administration, notes and calendars to income articulation and the balance sheet, balance sheet unique and company profile, cash flow explanation, graphical and factual subtleties (like subtleties of vital parameters for a decade ago), consistence/revealing subtleties identifying with accounting benchmarks today make the yearly reports the measurable fortunes for the management just as different outside clients of the information.

These announced realities and information are being utilized to work out different ratios and other applicable Planning by the best management with reference to the issue before them for decision making. This information is additionally depended on by the speculators in securities exchange, the banker of the company, financial institutions who authorize medium term and long haul loans to the organizations, exchange affiliations, creditors, income experts like income tax department, extract dept., contenders, clients, other govt. agencies interested in the exercises of the company like the enlistment centre of organizations, rating agencies and research agencies.

### 5.1 Methods of Financial Planning:

The Planning and understanding of financial statements is an endeavour to decide the importance and criticalness of the financial information to check the execution in past, conjecture for the future business execution and confirming the financial quality of the firm. At the end of the day, financial Planning is the evaluation of a company's past, present and foreseen future financial execution and financial condition. Its objectives are to recognize the company's financial strengths and weaknesses and to give the basic establishment to financial decision making and planning. The wide methods of Planning are:

- 1) Horizontal Planning: This is the examination, Planning and elucidation of a comparative thing of a financial statements identifying with two distinctive accounting periods.
- 2) Vertical Planning: This is correlation, Planning and translation of two things or variables of financial statements identifying with a similar accounting period.
- 3) Static and dynamic Planning: Static Planning measures the relationships among the things in a solitary arrangement of statements. Dynamic Planning measures the progressions in such things in progressive statements. Static Planning is vertical Planning and dynamic Planning is horizontal Planning.
- 4) Internal and outer Planning: The internal Planning is the Planning of financial information by the management of the undertaking itself for internal decision making. Outer Planning implies the Planning of the information from the financial statements done by any outcast like speculators, banker, government income expert, any creditor, clients and others for taking an applicable decision.

### 5.2 TECHNIQUES OF FINANCIAL PLANNING:

Different techniques (likewise called instruments) of financial planning which have been oftentimes utilized and have turned out to be mainstream are:

1. Proportion Planning: A proportion is an arithmetical relationship between two figures. Financial proportion Planning is an investigation of ratios between different things or gatherings of things in financial statements. Ratios can be worked out to check the profitability, liquidity, dissolvability, leverage, valuation and turnover of the firm.
2. Pattern Planning, Common size statement Planning and near statement Planning: Trend Planning is worried about isolating the sizes of noteworthy things or gatherings of things in every one of a progression of statements by their extents in a single year in the arrangement chose as base, in this manner getting a progression of pattern rates or relatives to the base year. By concentrate the varieties from base year, an exhaustive perspective of the business can be gotten.
3. Another variety is getting ready normal size financial statements, that is, regular size income statement and basic size balance sheet. For this, all things of the statement are contrasted and one normal thing, which is huge. For example, in the income statement, sales might be taken as 100 and every single other thing in the statement are thought about as level of sales. Essentially, if there should arise an occurrence of balance sheet the connection of everything to add up to assets/complete liabilities are registered. Such regular size statements or 100 % statements give helpful extents of every segment of the aggregate. The investigation of extents and pattern in the creation of extents of different thing and the significance just as reasons of changes of extents can be broke down for pertinent examination. Pattern Planning and normal size statements will help in bury firm correlation.

4. **Funds flow Planning:** Funds flow Planning or the statement of sources and employments of funds demonstrates the wellsprings of funds and uses of funds amid the period. Funds flow Planning gives knowledge into the development of funds and aides in understanding the adjustments in the structure of assets, liabilities and proprietor's equity.
5. **Cost - volume - profit Planning:** Cost volume profit Planning is an imperative instrument of profit planning. It investigations the interrelationships of changes in profit when the volume of yield is changing and at last the variable expense and fixed costs are likewise evolving. It is a device which investigations profitability under different circumstances having distinctive volume of action. This profit planning device is likewise called equal the initial investment planning. It helps the management in taking important decisions under various dimensions of assembling movement, distinctive prices and extreme impact of the conduct of fixed and variable costs which make up the all out expense at various dimensions of business action. It helps in evaluating and understanding the different parts of costs under various circumstances and subsequently turns into a guide for future planning of business and profit.
6. **Index Planning:** In index planning, the things in near financial statements (income statement and the balance sheet) are communicated as an index with respect to the base year. All things in the base year assume a value of 100. This sort of Planning encourages correlation of advancement or down pattern of exercises over a period, since different years' figures/execution is contrasted and 100.
7. **Leverage Planning:** As a general idea, leverage represents impact of intensity. In financial Planning leverage represents the impact of one financial variable over some other related financial variable. Financial leverage measures the impacts in procuring per share on account of changes in book profits. Working leverage measures the impacts in profit on account of changes in amount delivered and sold. All out leverage, that is, the joined impact of financial and working leverage can likewise be broke down. This will help in understanding the cost conduct and dimension of action revenue driven planning and strategic decisions.

#### **Balanced Scorecard:**

Presently as another improvement, most organizations have an execution measurement framework that incorporates financial measures just as non-financial measures. Financial measures are utilized essentially by senior management to screen the execution of the firm all in all. Non-financial measures are utilized mostly by working managers to control momentary activities. This integrated measurement framework is created as of late containing financial and non-financial execution measures. The technique of Balance scorecard is strategy driven measure. In modern occasions, measurement focal point of the scorecard is utilized to achieve basic management forms. This device of Planning centres four essential points of view in a business, to be specific financial, clients, internal

business and learning and growth. The technique of balanced scorecard connects the objectives and measures thro circumstances and logical results relationships existing in business. Along these lines it is a complete expository device of business exercises measurement and execution appraisal.

Financial Planning of potential suppliers and give candidates are completed to comprehend and limit the financial risk to the Council. This risk incorporates circumstances when the Council may lose funds or be not able recoup them, acquire additional costs, get terrible attention, or needs to re-arrangement administrations if the supplier comes up short. For stipends being given, there is a need to abstain from granting a concede to an organization that would be at risk of utilizing it for another reason (for example supporting its cash flow) or having a risk of liquidation before the Council's concede – subsidized action is conveyed.

As a component of the County Council's formal offering obtainment forms, CRD Finance is required under financial directions to watch that providers of merchandise and enterprises to the County Council can demonstrate a stable and properly substantive financial foundation. Boss Officers may likewise ask for the appraisal of candidates to help their allow granting forms and more extensive acquirement needs.

This Financial Planning process supplements technical appraisals for acquisition and the more extensive give application forms. It depends on a Planning of important examined yearly accounts. Informative supplement demonstrates the application structure and procedure required to apply for a Financial Planning.

#### **2. How we complete a Financial Planning**

The Financial Planning is embraced by Planning of the candidate's formal (distributed) accounts; from applying perceived accounting formulae; and from translating financial ratios. For enlisted organizations, accounts and information are typically sourced electronically from a commercial Planning company or from Companies House.

Our Financial Planning basically expects to set up the accompanying:

- a) The organization/company has adequate assets to help a contract or allow application, and
- b) The organization/company is financially solid and possibly stable enough to stay in business for the period required.

The financial quality of the organization/candidate is surveyed by taking a gander at its turnover, gross and (pre-tax or net) profits, net worth and certain financial ratios. Thought of the accounts for the last three/four years empowers a feeling to be made on proceeding with information, as opposed to exactly at one point in time. Organizations are appraised against the accompanying markers:

- The level of turnover and profits are surveyed to discover in the event that they are enhancing or not (for

example what slants there are, assuming any), and whether any misfortunes have been acquired. As a rule, we prescribe that the all out level of the Council's introduction should not surpass 25% of a company's turnover, all together that a company's assets should not be overstretched. What's more, a company should not be excessively needy upon its business from the County Council.

- For Grants, the "25% of turnover" rule does not have any significant bearing as the level of allow connected for might be progressively dictated by the candidate's management capacity and administration. Nevertheless guarantee that the candidate has ability to convey the required action, and a concede that is generally high contrasted with an organization's turnover may propose that their ability isn't adequate. In these conditions, there should be a recommended endorsement process, including a thorough risk evaluation.
- The liquidity of a company is measured by the present and basic Planning ratios to perceive how effectively it will most likely meet its present moment (current) debts with the present assets that are promptly accessible to it. In a perfect world these ratios should be at any rate 1.0 or more prominent (for example there should be in any event £1 of current assets to each £1 of current risk). The lower the proportion is underneath 1.0, so then the more prominent the risk is which we at that point need to take a view on.
- The net assets of a company represent the capital utilized to help its activities and liquidity. For little organizations with simple accounts, this can be viewed as their net worth. For bigger organizations who may have elusive assets, (for example, Goodwill) incorporated into their benefit all out, at that point the value of the 'intangibles' should be deducted from the investors' funds to land at an increasingly successful net worth.

On the off chance that the net worth is negative, at that point this demonstrates the company could be 'technically wiped out', (for example that it owes more than it claims). At the point when a company achieves this guide, at that point its capacity to keep on continuing exchanging is at far more serious risk, particularly if its creditors request payment, it could go into organization or be twisted up.

Gearing mirrors the value of long haul loans and any inclination shares contrasted and its other capital utilized. In the event that the equipping proportion is high, the company might be focused on significant interest payments, and might be restricted in its capacity to raise further funds, to help either development or transient liquidity. So the higher an outfitting proportion is, at that point the more noteworthy the risk moves toward becoming.

These factors may now and again give clashing signs of a company's position and no two organizations are ever precisely the equivalent – the accounts will regularly mirror the job and nature of the organization's business and what is worthy in one zone may not be in another. In general the last

proposal for an appraisal is taken by landing at an expert perspective of every one of these factors and surveying what a company's financial position is. Our experience is frequently that the accounts of a "coming up short" company/organization are undeniable.

In granting contracts, procurement managers and give officers should agree to the value imperatives either communicated or inferred by company appraisal results (for example the 25% rule as communicated previously). For this reason a check should likewise be made utilizing the ESCC Contracts register concerning whether any of the organizations requiring appraisal as of now have live contracts with ESCC. Where this is the situation, the yearly values and end dates of the contracts should be added to the appraisal ask for structure, before its accommodation to CRD Finance. Applicable information is accessible from the ESCC Contracts Register on the Intranets ME Concordat, Compact and consortia courses of action:

A neighbourhood SME concordat exists to guarantee that criteria identifying with financial standing won't be set to nonsensically prohibit more up to date businesses inside the County Council's procurement forms. The concordat can be found on the County Council's site.

Similarly a neighbourhood Compact exists to guarantee that criteria identifying with financial standing won't be set to nonsensically avoid intentional and beneficent organizations and Social Enterprises (referred to all in all as the Third Sector) inside the County Council's procurement forms. The Compact can be found on the County Council's site.

Accordingly, and in both these occurrences, two years of accounts are acknowledged for fresher businesses and for bigger Third Sector organizations. A statement of profit and misfortune account and balance sheet for the latest year of exchanging will be considered in specific conditions including littler Third Sector organizations.

Periodically consortia offers might be looked for, and in these bodies of evidence members are evaluated separately against, where conceivable, the value of contract or give relevant to their consortia jobs.

### 3. Results

The consequence of a Financial Planning is frequently an obvious pass/fizzle assessment. Results are then detailed as "Satisfactory" or "Not Acceptable" to the asking for department.

Unless excellent uncommon conditions exist no honour should be made to a supplier or candidate evaluated as "Not worthy". Officers who don't pursue this guidance abandon themselves open to disciplinary activity.

On a few events the Financial Planning of a company or organization is viewed as being fringe in nature for example palatable separated from (state) one recognized financial risk. In these cases our feeling might be



"Satisfactory subject to an endorsed risk appraisal" being appropriately done and affirmed to demonstrate that the risk is worthy to the Assistant Director-Resources. (For example the AD - Resources of the department asking for the appraisal).

Again unless extraordinary uncommon conditions exist, no honour should be made to a supplier or candidate evaluated as "Worthy subject to an affirmed risk appraisal", unless a risk Planning is legitimately completed and endorsed, demonstrating that the risk is adequate or can be alleviated to a satisfactory level. Officers who don't pursue this guidance abandon themselves open to disciplinary activity.

In both these cases, the unique conditions may incorporate where there would be no, or insignificant risk to the Council if the supplier all of a sudden stopped exchanging.

On the other hand there might be conditions where there is no realistic option for giving a required administration.

Along these lines what do the three results mean – for procurement and for allow applications?

#### - Procurement

Acceptable – We trust that from the accounts: (a) the organization/company has adequate assets to help a contract application: and (b), the organization/company is financially solid and conceivably stable enough to stay in business for the period required.

The procurement supervisor and department stays in charge of guaranteeing that every single different procedure (and risk appraisals) required for the procurement are finished palatably as per endorsed County Council strategies.

Acceptable subject to an affirmed risk Planning - In these cases, our supposition might be acceptable subject to a particular risk Planning being completed (see area 4 underneath) and being endorsed by the Assistant Director-Resources. (For example the AD - Resources of the department asking for the appraisal). In these conditions, the pertinent AD-Resources are brought specifically into the application procedure, for example wherever a risk appraisal is recommended.

For this reason, we duplicate them into our appraisals where a "risk evaluation" is required to empower their thought. This finishes the information circle and gives affirmation that, where vital, risk appraisals are by and large legitimately tended to before a contract being granted.

Not acceptable - If the Financial Planning result is "not acceptable" departments still wish to continue for administration reasons, at that point the Assistant Director-Resources should guarantee they can affirm a finished risk

evaluation as above, and moreover look for the endorsement of the Deputy Director of Corporate Resources, again before any procurement or contract is granted. In these cases, game plans for maintaining a strategic distance from the risks for the future should be formally considered for example expanding specialist organization showcases or reassessing long haul administration needs.

#### - Grants

Acceptable – We trust that from the accounts: (a) the candidate has adequate assets to help a concede application; (b), in financial terms, the level of give would not surpass their ability to convey; and (c), the candidate is financially stable and conceivably stable enough to stay in business for the period required.

The give director and department stay in charge of guaranteeing that every different procedure (and risk evaluations) required for the give endorsement process are finished palatably as per affirmed County Council systems.

Acceptable subject to an affirmed risk Planning - .In these cases, our feeling might be acceptable subject to a risk planning (see segment 4 underneath) being endorsed by the Assistant Director-Resources. (For example the AD-Resources of the department asking for the appraisal). In these conditions, the important AD-Resources are brought straightforwardly into the application procedure, for example wherever a risk appraisal is recommended.

For this reason, we duplicate them into our appraisals where a "risk evaluation" is required to empower their thought. This finishes the information circle and gives confirmation that, where fundamental, risk appraisals are in effect appropriately tended to preceding an important contract or give being granted.

For Grants, we demonstrate the level of turnover that the concede represents as a warning aide. In reality, the level of concede endorsement might be resolved more by the candidate's management ability and administration. In surveying the level of allow grant, there should be a suitable endorsement process, including a far reaching risk appraisal.

Not acceptable - If the Financial Planning result is "not acceptable" departments still wish to continue for administration reasons, at that point the Assistant Director-Resources should guarantee they can favour a finished risk evaluation as above, and (if the application is for a give over £10,000) furthermore to look for the endorsement of the Deputy Director of Corporate Resources, again before any concede is granted.

Clearly it is the duty of departments to guarantee that organizations considered "acceptable subject to an endorsed risk appraisal" or "not acceptable" are not generally granted a concede or procurement.

## VI. RISK PLANNING

Some portion of the typical procurement process, notwithstanding for organizations made a decision as acceptable, should incorporate a risk evaluation. Nonetheless, a particular risk Planning/appraisal for the "acceptable subject to an affirmed risk Planning" or "not acceptable" results should be finished by the senior operational supervisor in discussion with the procurement chief. It needs to guarantee that full thought is given to the County Council's position should a provider or candidate come up short. Issues that should be completely - considered are probably going to include:

- How will the County Council look after administration/project coherence or recoup a give if the candidate comes up short?
- What are the risks to the County Council's notoriety?
- Are there option, less risky providers/candidates that could be utilized (in respect to any lower cost or quality ramifications)
- Are there any activities that can secure the Council's risk presentation (for example no payments made before full administration conveyed)
- Are any extra administrative, financial or legitimate protections required before procurement or allow grant?
- What will be the expense to the County Council of keeping up or supplanting the administration?
- What will be the impact on administration collectors of administration disappointment, and in what capacity will this be overseen?
- What more extensive moves can the Council make to restrain its introduction to risk? (For example is the provider effectively associated with other Council procurements?)
- Are there any activities that the Council could go out on a limb of the provider falling flat (for example payment terms)
- How does the Council's presentation to risk change after some time? (For example is there one contract in the blink of an eye arriving at an end which would bring the complete presentation underneath 25%).

In a few conditions it may be important for the Council and the organization worried to cooperate and concur extraordinary game plans to secure the Council's funds and decrease its risk introduction without, through these activities, further improving the organization's probability of financial disappointment. It might likewise be a piece of the arrangement that a parent company ensure or (extra) execution bond be considered. A parent company, as underwriter, would should be completely appraised too.

Appraisal is the valuable measure of past execution. The source information that is Management Information System is implied (1) to guarantee sufficient profitability. (2) To have an early cautioning of something turning out badly. (3) To have reason for allotment of assets. (4) To assess managers. Execution evaluation is a focal element of a viable management information framework. As it were, financial Planning is Decision information framework. The

appraisal is the evaluation of worth, quality and execution. The execution is assessed with source information to check the nature of execution just as to frame a judgment of likely future execution. Appraisal of past answers two essential inquiries: (1) how well has the business done in correlation with what could be assessed? (2) What should be possible to enhance the future execution? With this reference: Financial Planning is a logical evaluation of the profitability and financial quality of a business concern. Financial Planning is the procedure of logically making a legitimate, basic and relative evaluation of the execution, for example the profitability and financial soundness of any business venture through the utilization of the techniques of financial statement Planning. Financial Planning is a procedure of evaluating the summarized financial and business information to get a superior comprehension of a company's position and execution. The principal consistent advance towards financial Planning is the translation of financial statements. The fundamental information which is investigations is found in the financial statements. The capacity to comprehend, broke down, translate and utilization of information given in the financial statements relies on the comprehension of accounting and money. With reference to this the meaning of Accounting is worth noticing: Accounting has recognized riches and execution as wonders for which measurement and communication are justified. Riches are measured by direct regard for a substance's proprietors' equity and execution is measured by concentrating on the impact of an element's working exchanges on its proprietors' equity. The medium through which such information is imparted is known as financial statement.

The American Institute of Certified Public Accountants characterizes accounting as the 'specialty of chronicle, arranging and summarizing in a noteworthy way and regarding money, exchanges and occasions which are, to some degree in any event, of a financial character and in translating the outcomes thereof.'

Accounting is the art of chronicle and characterizing business exchanges and occasions, principally of financial character, and the specialty of making huge summaries, Planning and elucidations of those exchanges and conveying the outcomes to the people who must settle on decisions or structure decisions.

Accounting is an administration movement. Its capacity is to give quantitative information, basically of financial nature about monetary elements yet is proposed to be helpful in settling on monetary decisions, in settling on contemplated decisions among elective approaches. (AICPA).

Financial statements are set up to present a periodical audit or report by the management and manage the status of investment in the business and the outcome accomplished amid the period under survey. They mirror a mix of recorded realities, accounting traditions and individual judgment and traditions connected which influence them materially. The soundness of the judgment essentially relies

upon the capability and uprightness of the individuals who make and on their adherence to generally acknowledged accounting standards and traditions.

The essential motivation behind financial statements is to transmit dependable and valuable information to interested gatherings, both outer and internal.

The Planning and elucidation of financial statement is the remainder of four noteworthy strides of accounting. The initial three stages, which include crafted by the accountant in the collection and summarization of financial and working information and in the development of financial statements, are as per the following:

- a) Examine of every exchange to decide the accounts to be charged and credited and the measurement or valuation of every exchange to decide the sums included.
- b) Recording the information in books of unique passage, summarization in record, and readiness of a preliminary balance.
- c) Planning of financial statements.

All the above definitions and clarifications uncover the way that

Accounting is an information framework where the way toward distinguishing, estimating examining and imparting of the monetary information of an organization to the clients is included. This monetary and financial information, information and measurements are utilized by different clients who need it for different purposes. This is essential information which is dissected; evaluated and pertinent ends are drawn in view of thought about approach and an objective. Accounting measures the exchanges and occasions as far as a typical measurement unit. As it were, Accounting plays out an essential capacity of a language by filling in as methods for communication. It is an information framework which imparts the financial/accounting information to the internal and outside clients to empower them to settle on contemplated decisions. In that sense, it is an information yield gadget which includes the essential period of preparing the information enveloping account, arranging, summarizing, investigating and translating of the statistical data points concerning any substance covering a predetermined period.

The fundamental capacity of account needs to guarantee that all business exchanges of financial character are recorded. This should be performed in a precise way. According to the nature and size of business, these books of fundamental records should be kept up. The following stage of order is worried about the systematic Planning of the recorded information so as to amass exchanges or passages of one nature at one spot. This includes different Ledgers, which is the essential Book of accounting. Records help in getting one figure/information identifying with an account/thing at one spot. Thusly moment information is accessible without loss of much time. Every single such datum is to be presented in an organized way which is Reasonable and helpful to the internal just as outside end-clients. This is the summarizing capacity of the procedure.

This will make two fundamental statements called income statement (profit and misfortune Account) and financial position statement (Balance sheet). These are likewise called financial statements.

#### **Procedure of Financial Planning:**

The information for financial Planning and appraisal fundamentally rise up out of financial statements. Such Planning covers:

- a) Isolating of individual segments of financial statements and gatherings of indicated components properly characterized with the goal that the calculation can be unmistakably discovered for checking and exactness. The information contained in the income statement and the balance sheet are to be totally recast and presented in a dense and brought together structure.
- b) To set up critical relationships between the individual segments of income statement and balance sheet. This is done through utilization of the instruments and techniques of financial Planning.
- c) Evaluation and translation of the near information gotten by use of the instruments of financial Planning.

The Planning and translation of financial statements represent the remainder of four noteworthy strides of accounting. The initial three stages include: (1) Planning of every exchange to decide the accounts to be charged and credited and the measurement or valuation of every exchange to decide the sums included. (2) Recording the information in books of unique passage, summarization in record, and arrangement of a preliminary balance. (3) Readiness of financial statements. The fourth step of accounting – the Planning and elucidation of financial statements – results in the presentation of information that will help business officials, speculators and creditors. The way toward breaking down financial statements includes the gathering and investigation of financial and working information and the planning and elucidation of estimating gadgets, for example, ratios, patterns and rates. Planning of statements comprises in isolating realities as per some positive arrangement, masterminding them in gatherings as per certain qualities, and after that presenting them in an advantageous and effectively read and reasonable structure. Along these lines the examiner endeavours to decide the centrality and significance of the financial statement information.

The financial statement figures comprise not just of account balances, which for the most part are the consequence of many charge and credit sections for an assortment of exchanges, yet in addition mixes of account balances. Accordingly, the figures frequently don't represent homogenous information. The accounting information is the consequence of countless exchanges occurring directly from start of the record till the last date of the accounting year. For legitimate understanding, numerous multiple times this requires Planning of the information. For example, the cases of a business firm against Sales made are measured under the head of borrowers. However, this outright figure may not be of much utility as in it is important to confirm the situation of account holders who have not paid for most

recent 30 days, 60 days, 120 days, 180 days, etc. Such information just would be increasingly important to the management of the firm to take an appropriate decision. Elucidation requires examination moreover. Unimportant examination of the parts of a statement can't be relied upon to prompt unequivocal conclusions with respect to the financial status of a business. After the statement has been analysed into its constituents, it is important to measure the overall sizes of the different things. For example, the present liabilities of a specific business at a specific date is a specific sum, and a sentiment is wanted about whether it is likely that the business will most likely meet these commitments, the measure of the liabilities might be contrasted and the measure of assets that the business has accessible to pay them: the cash and such assets as receivables and the products that will be changed over into cash in the typical activity of the business amid the coming year. In the event that this sum is higher, the examiner would most likely consider the obligation paying capacity of the business tasteful. In any case, on maturing the sums payable and receivable, on the off chance that it is seen that present liabilities end up due before an adequate measure of cash would be gotten from clients to pay them, the circumstance swings to be unsuitable.

It is hence observed that so as to translate the situation of an undertaking it is essential not exclusively to separate the aggregates given in its financial statements into their segments yet in addition to make examinations of the different segments and to inspect their substance. Furthermore, an investigation of the progressions that have happened in the business more than a few periods should be made. such an examination is completed by inspecting the patterns of the different vital factors in a progression of statements. Financial statement Planning is, in this way, to a great extent an investigation of relationships among the different financial factors in a business, as unveiled by a solitary arrangement of statements, and of the patterns of these factors, as appeared in a progression of statements.

The job of open organization is essential for the accomplishment of the association: it needs to wind up the project supervisor of the endeavour so as to guarantee the accommodation of the PFI adventure.

It is another job for the government worker, which requires the improvement of a culture situated to the ex-bet evaluation, went for examining the comfort and the relevance of the financial instruments based on the attributes of the foundations and its clients. In most of cases those Planning aren't directed attributable to the absence of resources, capabilities or different inspirations, for example, the conviction that the PFI is the remarkable financial device accessible or weights originating from political pioneers or

private administrators. For example, in Italy the quantity of PFI adventure is high, yet it is presently imperative to venture up the class towards a higher number of endeavours finished with great level of value for money and comfort for subjects.

The abnormal state of not settled endeavours, the length of open delicate methods, the rare challenge among private administrators, who are generally nearby, the troubles to achieve the financial close are brought about by two fundamental factors:

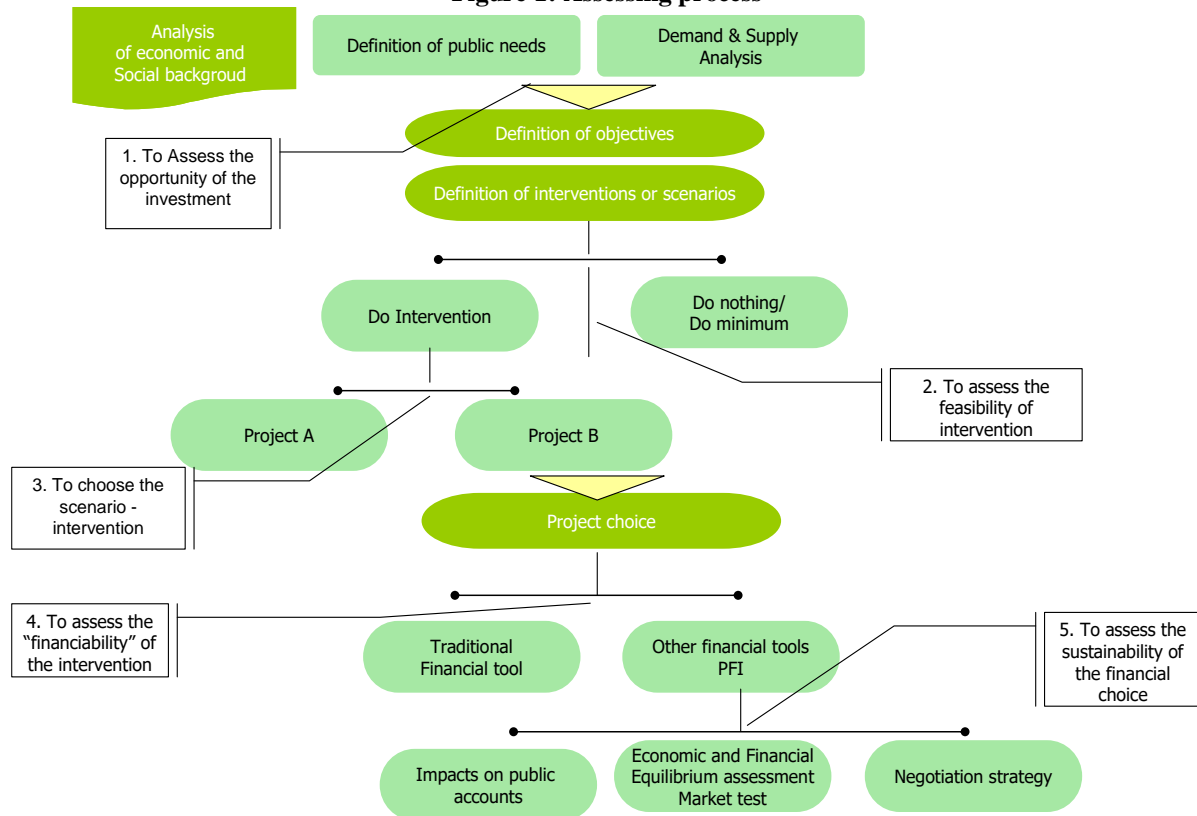
- The nonappearance of a pre evaluating stage led by open organization;
- A request rising from private administrators who consider PFI the answer for lessen the challenge and to increase high profit.

They are two related causes: the nonappearance of a pre surveying stage ready to arrange the decisions of the general population organization opens the best approach to shrewd practices for the benefit of private administrators; on the opposite side, the plausible and effective projects are preconditions to animate a higher obligation and to diminish the rate of mutilations. A right appraisal process is described by strategic, technical, monetary and financial Planning, generally summed up into four fundamental measurements:

1. assessment of the chance of the investment, in light of the Planning of the financial and social setting, the residents needs and the present supply;
2. assessment of the plausibility of the investment, went for singling out the technical and administrative arrangements which grant to decrease the investment costs and to enable the administrative effectiveness (based on elective situations);
3. assessment of the "financiability" (the ability to be funds) of the investment, went for tending to the decision of the most helpful and appropriate financial apparatus;
4. Assessment of the manageability of the investment went for singling out and limiting the monetary and financial impacts on open accounts.

On the off chance that the initial two phases portray all investment projects, the third is vital to decision the PFI arrangement. It comprises in evaluating, on one side, the preconditions important to back the investment through private capitals, on the opposite side, the accommodation of PFI for the general population organization. It is a Planning dependent on a first trial of monetary and financial harmony, which is condition sine qua non for the private speculators and on a second acid test for money, went for characterizing the important conditions as the endeavour represents the best assigning decision for open resources.



**Figure 1: Assessing process**

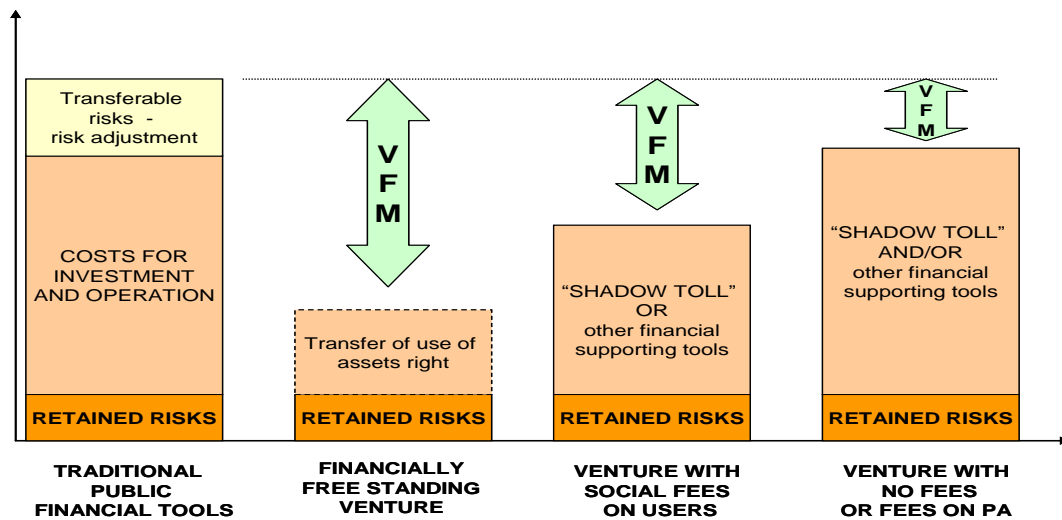
Criteria for the evaluation of value for money can change based on the attributes of the infrastructures:

- Under the hypothesis of financially free standing projects, the appraisal should think about the level of tolls on the natives. Picking the most helpful project implies applying the rule of the social value for money. For those sorts of infrastructures the surveying procedure completes at the financiability evaluation level;
- Under the most continuous hypothesis of projects which need an open financial help, the evaluation criteria could be represented by open division comparator, received in UK experience. A comparative Planning is additionally recommended by European Commission through the Guide lines for fruitful PPP, which distinguish the Public Private Comparator (PPC).

PSC comprises in characterizing the hypothetical cost risk – balanced of an investment financed through open capital or open obligation and actualized through the customary open procurement. It represents a decent correlation term against PFI elective. PSC is characterized as pursues:

- 1) it is communicated as net present value of project cash flow;
- 2) it depends on the likelihood to gauge the expense of the infrastructure financed by open funds or open loans;
- 3) It considers all the project risks which the general population organization needs to help, even those risk that in a PFI adventure would be exchanged to a private administrator.

The figure appears artificially the potential advantage originating from the decision of PFI rather than conventional financial devices (open funds, open loans). The monetary advantage diminishes moving from a financially free standing infrastructure to a not financially free standing one. The rate of lessening relies upon financial help given by open organization. The negative impact of the financial commitment can be balanced, in term of value for money, by the effective risk moving to private administrators. Frequently this component can be scarcely surveyed, attributable to the way that Public Administration once in a while receives framework to measure risks or more all inferable from the vulnerability of the risk evaluation.

**Figure 2: The comparison between traditional public finance and PFI for different typologies of infrastructures**

For the situation in which PFI is helpful or for the situation in which it is viewed as the main financial devices accessible (the main amusement nearby), it is important to continue with different Planning, went for characterizing:

- the approach to help the monetary and financial equilibrium;
- the exchange edges with the private administrator;
- The impacts on Public Administration accounts.

With reference to the first and second point, it is important to characterize the way and the level of public financial help to ensure the financial and monetary equilibrium. Those are contemplations that should be created based on the qualities of the project, of its risky level and of the physical or financial assets of public organization. Ensuring the financial and monetary equilibrium hasn't to mean a higher assumption of risks for public organization: that circumstance should decrease the advantages of a PFI adventure, which would be fundamentally more expensive than a customary public financial apparatus if risks weren't exchanged to private administrator. In such cases in which the level of interest is low or in which social or free tolls are required, it is totally important to characterize a public help to the endeavour, which is condition sine qua non to realize the investment however private capitals.

The fourth step of evaluation is gone for singling out the modus and the quantum of the public help. Modus relies upon the qualities of the project and on the public assets accessible; quantum should be characterized based on the most extreme level important to ensure the financial and monetary equilibrium for a situation in which private administrator can assume effectively every one of the risks exchanged. It is in this way a financial help which could be diminished on account of administrative disappointments in favour of SPV or a financial help which couldn't most likely certification the equilibrium on account of private disappointment in the risk management and relief.

Characterizing ex risk the modus and the quantum grants to draw soundly the documentation important for the public delicate went for selecting the SPV and to expand the arrangement intensity of public organization.

The decision of modus and quantum should consider additionally the present and future impacts on public accounts, so as to survey the maintainability of the endeavour and its congruity with spending cut-off points to regard (for example characterized inside Maastricht agreement).

A comparable evaluation process settles on conceivable appropriate decisions, which don't include just the comfort of PFI adventure towards other financial instruments yet additionally different components critical to enhance the structure of the endeavour. It must be underlined that this appraisal procedure is free from the method of public delicate important to choose the SPV and is critical so as to enable the job of public organization, which needs to assume a proactive job in the endeavour: PFI doesn't mean privatization; the capacity connected to the conveyance of public administration stays public and public organization needs to characterize the particular qualities of the project and to screen the level of administrations conveyed by the private administrator amid the life of the concession. We have all the time observed projects without a particular meaning of their qualities and their objectives, inferable from an absence of public resources for ex risk appraisal: the investment of resources in this stage, at the earliest reference point of the endeavour, grants to have cost decreases and high advantages for the natives.

The principle advantages originating from the solid job of a public organization – project chief are the accompanying ones:

- addressing the private administrator amid the project - offer plan stage so as to get practically identical recommendations and to make the determination stage quicker and progressively flexible;

- an higher notoriety of the public organization, which decides a more extensive aggressive field;
- a decrease of the public delicate time allotment, which decides a decrease of exchange costs;
- an higher arrangement influence, which is at the premise of a value for money adventure

## VII. RESEARCH METHODOLOGY

### INTRODUCTION

Research methodology is a way to systematically solve the research problem. In this we study the various steps that are generally adopted by the researcher in studying his/her research to know not only the research methods and techniques but also the methodology.

Researchers also need to understand the assumptions underlying techniques and they need to know the criteria by which they can decide that certain techniques and procedures will be applicable to certain problems and others will not. All this means that it is necessary for the researcher to design his methodology for his problems as the same may differ from problem to problem.

Research comprises, defining and re-defining problems, formulating hypothesis or suggesting solution, collecting, organizing and evaluating data, at last carefully testing the conclusion to determine whether they fit the formulated hypothesis.

Research design is the basic frame work which provides guidelines for the rest of research process. It is a map or a blueprint according to which the research is conducted. It specifies the methods for data collection and data planning.

### SAMPLE SIZE

The sample size is 100 including retails customers and public. Simple random sampling is used for this research. The questionnaire has been distributed to everyone participated in the survey and explained about survey to every consumer.

### SOURCE OF DATA

Both primary and secondary data were used in this study. Primary data were collected directly from the people using questionnaire specially prepared for this purpose.

Secondary data were collected from various related books, magazines, reports prepared by research scholars, various websites, etc.

### STATISTICAL TOOL

The data thus collected were classified, tabulated, analysed and interrupted in percentage to carry out the objectives of the study. The simplified data is then portrayed in the forms of tables and diagrams.

### LIMITATIONS

This study experience the following limitations

- This study is limited to Indian customers and general public level.
- The result of the study is based on the views of customers/consumers. Hence the data collected from them may be biased.
- The time allotted for the study is limited.

## VIII. DATA PLANNING AND INTERPRETATION

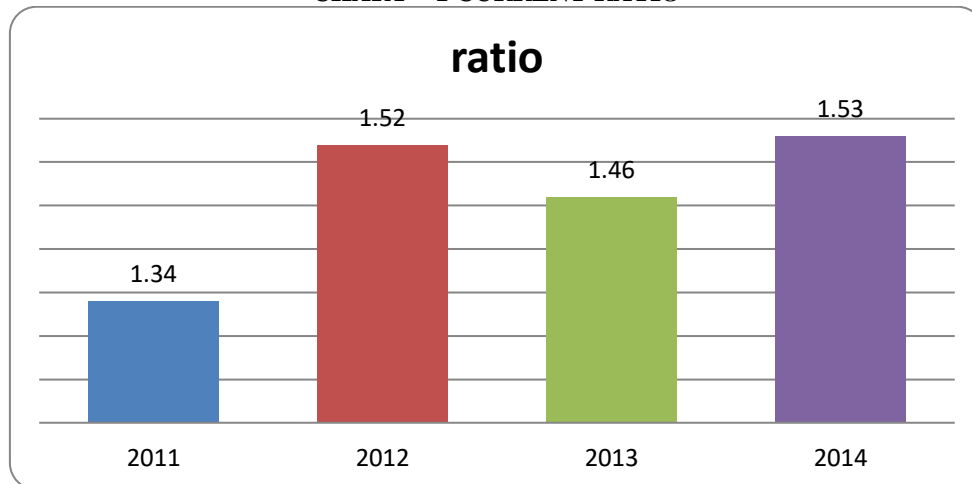
**TABLE – 1 CURRENT RATIO= CURRENT ASSETS / CURRENT LIABILITIES (Rs. In lakhs)**

YEARS	CURRENT ASSETS	CURRENT LIABILITIES	RATIO
2011-12	69.19	51.33	1.34
2012-13	141.69	92.86	1.52
2013-14	252.86	172.67	1.46
2014-15	363.06	237.06	1.53

**Source:** Collected from company's balance sheet

### Inference:

A current ratio of indicates highly solvency position. Current ratio is used as a measure of the organization ability to meet its current liabilities. The all current assets must be sufficient to meet current liabilities. The above table shows that the current ratio of the company in the year 2011-12, 2012-13, 2013-14, 2014-15 the ratio 1.34, 1.52, 1.46, 1.53 performance respectively. According to the industrial norms of 1:1 we may say the above ratios fulfils requirement that is the current assets are sufficient to meet current liabilities.

**CHART – 1 CURRENT RATIO****TABLE – 2 QUICK RATIO = QUICK ASSETS / CURRENT LIABILITIES  
(Rs. In lakhs)**

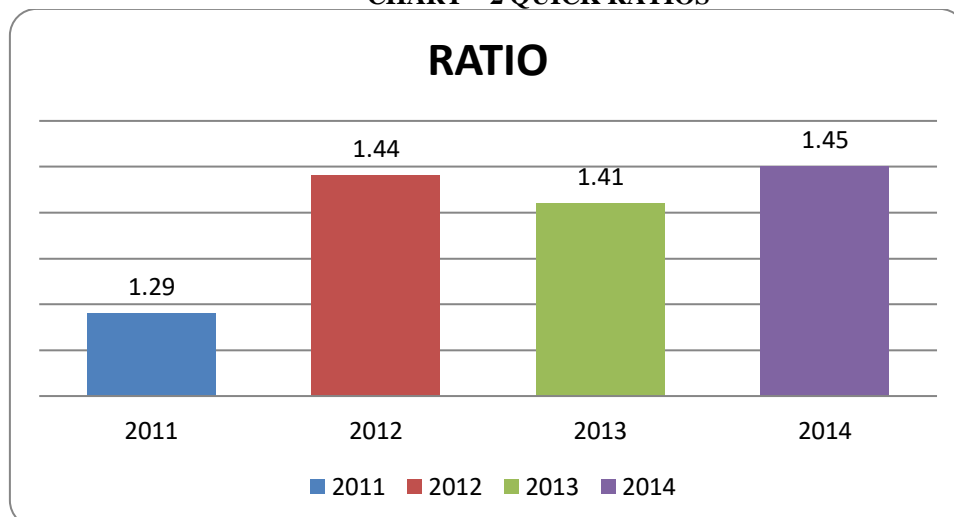
YEARS	QUICK ASSETS	CURRENT LIABILITIES	RATIO
2011-12	66.45	51.53	1.29
2012-13	134.36	92.86	1.44
2013-14	242.71	172.07	1.41
2014-15	344.26	237.06	1.45

**Source:** Collected from company's balance sheet

**Inference:**

A Quick ratio of indicates highly solvency position. Quick ratio is used as a measure of the organization ability to meet its current liabilities. Since a bank OD is generally secured by inventories. In the 2012-13 the company best ability to meet the current liabilities.

The Quick ratio has sufficient in the year 2011-12, 2012-13, 2013-14, 2014-15; the company is the best ability to meet current liabilities

**CHART – 2 QUICK RATIOS**



**TABLE – 3: ABSOLUTE LIQUID RATIO = CASH / CURRENT LIABILITIES**  
(Rs. In lakhs)

YEARS	CASH	CURRENT LIABILITIES	RATIO
2011-12	0.20	51.33	0.003
2012-13	0.20	92.86	0.002
2013-14	0.16	172.07	0.001
2014-15	0.24	237.06	0.001

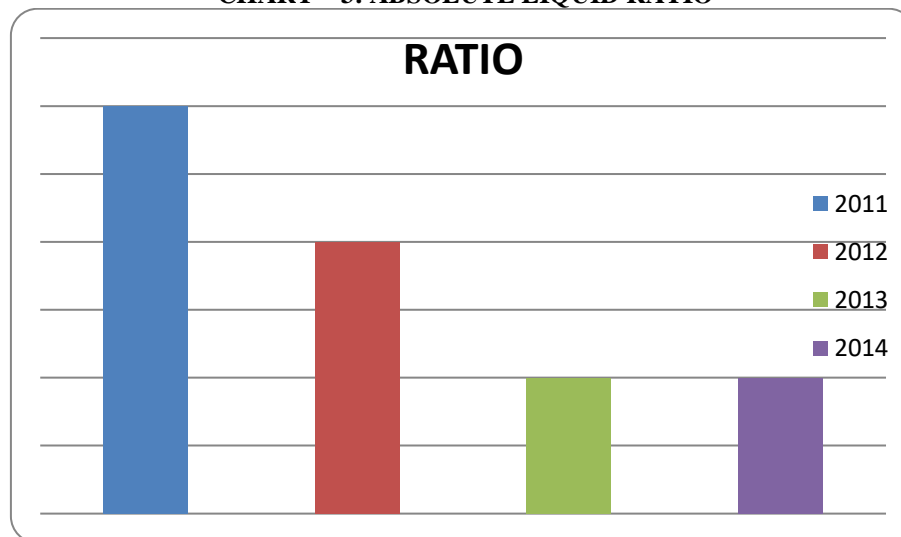
Source: Collected from company's balance sheet

**Inference:**

The ratio measures the cash and marketable ability of the organization. The ratio decreased continuously.

It shows that the absolute quick ratio decrease every year. It means the current asset (cash) is not sufficient to meet the current liabilities.

**CHART – 3: ABSOLUTE LIQUID RATIO**



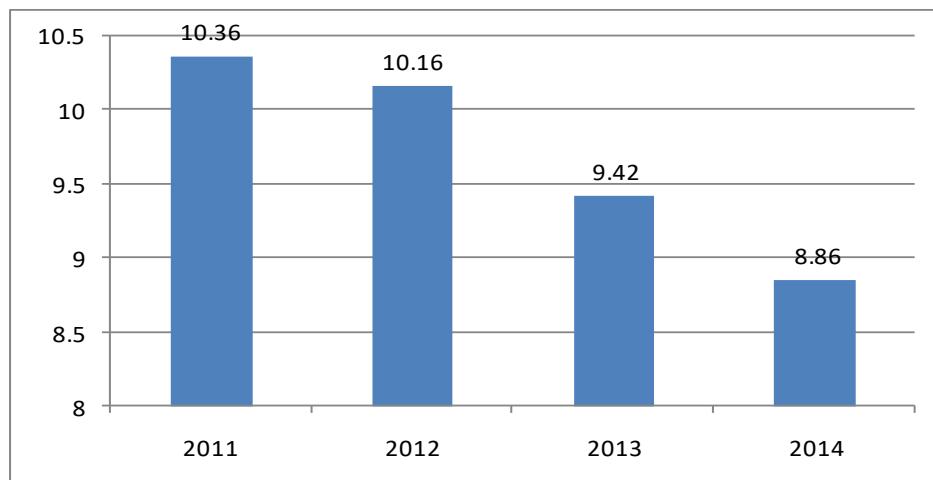
**TABLE – 4: GROSS PROFIT RATIOS = GROSS PROFIT / NET SALES\* 100**  
(Rs. In lakhs)

YEARS	GROSS PROFIT	NET SALES	RATIO
2011-12	29.46	284.34	10.36
2012-13	50.42	495.93	10.16
2013-14	91.88	974.88	9.42
2014-15	125.69	1418.21	8.86

Source: Collected from company's balance sheet

**Inference:**

The table shows the Gross profit of the company in year 2011-12 to 2014-15 reduce from 10.36 to 8.86

**CHART - 4: GROSS PROFIT RATIO**

**TABLE – 5: NET PROFIT RATIO = NET PROFIT / NET SALES \* 100**  
(Rs. In lakhs)

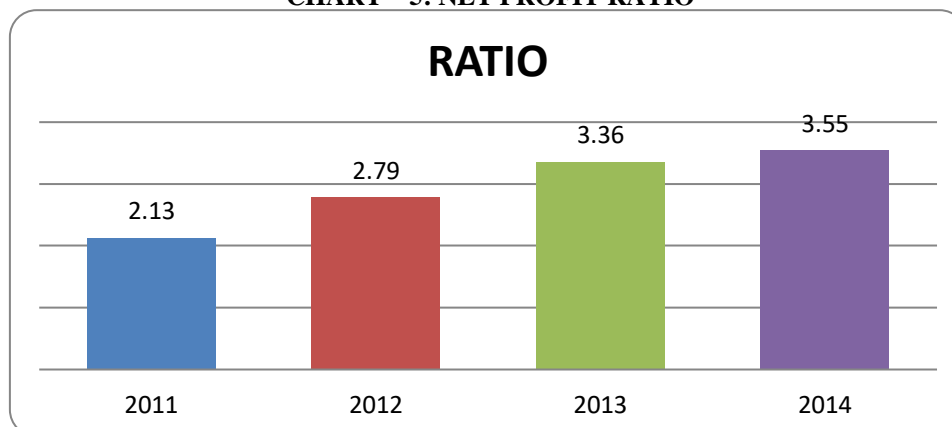
YEARS	NET PROFIT	SALES	RATIO
2011-12	6.07	284.34	2.13
2012-13	13.84	495.93	2.79
2013-14	32.80	974.88	3.36
2014-15	50.35	1418.21	3.55

**Source:** Collected from company's balance sheet

**Inference:**

This ratio refers the net profit margin of the total sales after deductions of all expenses but before deducting the interest and taxation. This ratio means its efficiency of the operation of the organization.

This table shows the net profit ratio is in increasing respectively for the 4 years. Thus the increase in the ratio over the previous year's indicates improvement on the operational efficiency of the business.

**CHART – 5: NET PROFIT RATIO**

**TABLE – 6:**  
**OPERATING PROFIT RATIO = OPERATING COST / NET SALES \* 100**  
**(Rs. In lakhs)**

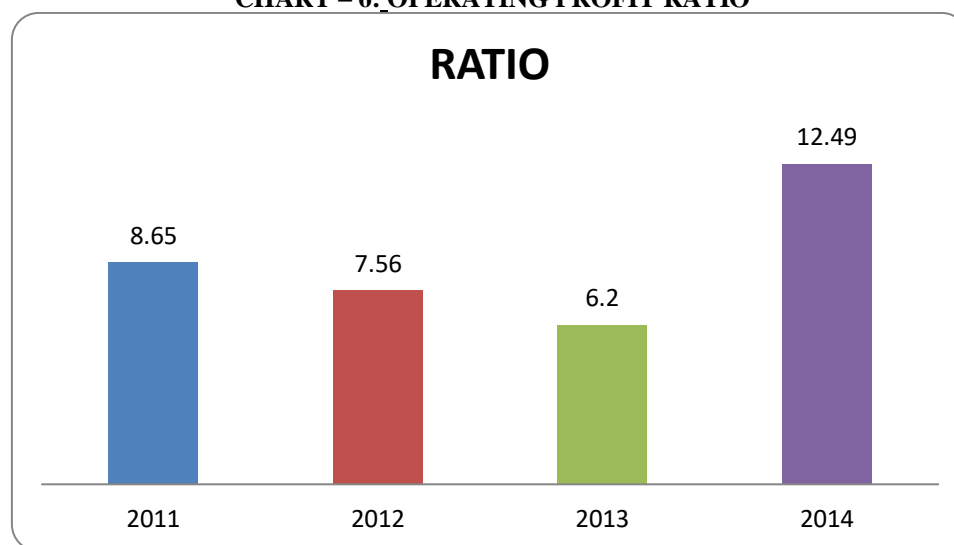
YEARS	OPERATING COST	NET SALES	RATIO
2011-12	24.61	284.34	8.65
2012-13	37.50	495.93	7.56
2013-14	60.40	974.88	6.20
2014-15	177.26	1418.21	12.49

**Source:** Collected from company's balance sheet

**Inference:**

The table shows the operating profit ratios for the year 2012-13, 2013-14 and 2014-15 are increasing the ratio 7.56, 6.20, 12.49 respectively. The ratio increased in 2014-15

**CHART – 6: OPERATING PROFIT RATIO**



**TABLE – 7**  
**RETURN ON ASSETS = NET PROFIT / TOTAL ASSETS \* 100**  
**(Rs. In lakhs)**

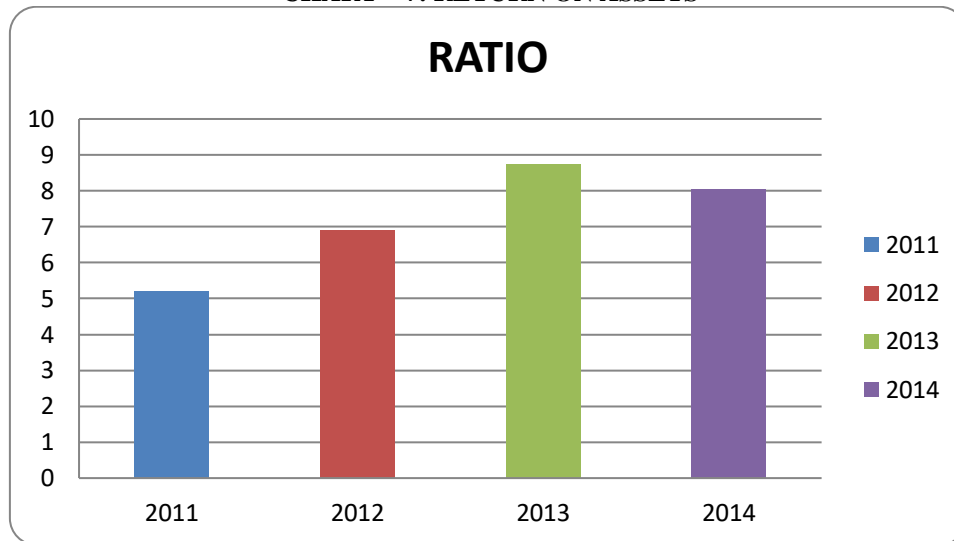
YEARS	NET PROFIT	TOTAL ASSETS	RATIO
2011-12	6.07	116.38	5.21
2012-13	13.84	200.01	6.91
2013-14	32.80	375.50	8.73
2014-15	50.35	626.71	8.03

**Source:** Collected from company's balance sheet

**Inference:**

This ratio indicates the efficiency of utilization of assets in generating the revenue. The higher ratio indicates the higher efficiency in utilization of assets idle capacity. The profitability measured in establishing the relation of net profit with the total assets of the organization.

From the above table we can say the comparative study showing decline trend for the year 2014-15. The reason is the total assets increased very high so in the ratio are declined in the year 2014-15.

**CHART – 7: RETURN ON ASSETS**

**TABLE – 8**  
**FIXED ASSETS TURNOVER RATIO = SALES / NET FIXED ASSETS**  
 (Rs. In lakhs)

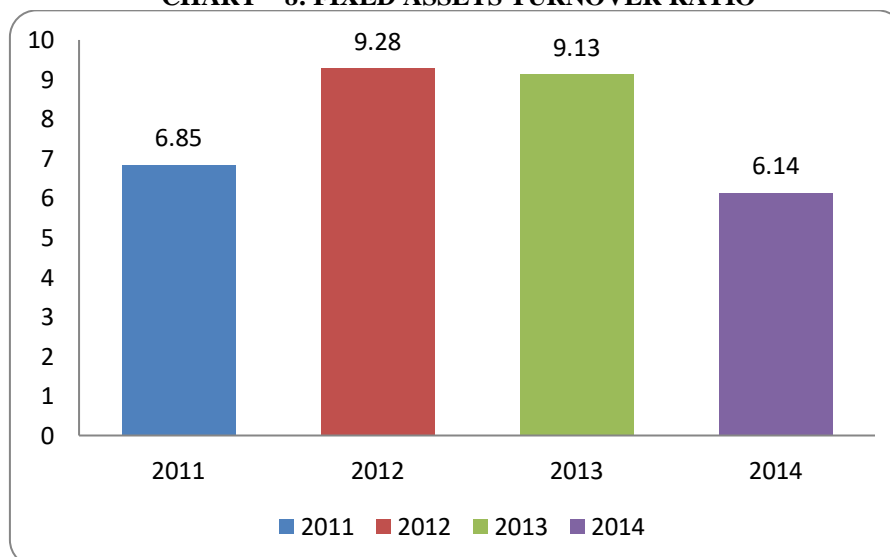
YEARS	SALES	NET FIXED ASSETS	RATIO
2011-12	284.34	41.53	6.85
2012-13	495.93	53.40	9.28
2013-14	974.73	106.74	9.13
2014-15	1418.21	230.88	6.14

**Source:** Collected from company's balance sheet

**Inference:**

The fixed assets turnover ratio measures the organization ability to generate sales revenue in relation to the size of investment in fixed assets. It higher ratio indicate the overriding of the fixed assets while lower the ratio indicates the idle capacity of the fixed assets.

The fixed asset turnover ratio of company in 2014-15 indicate the idle capacity when compared to 2012-13&2013-14

**CHART – 8: FIXED ASSETS TURNOVER RATIO**

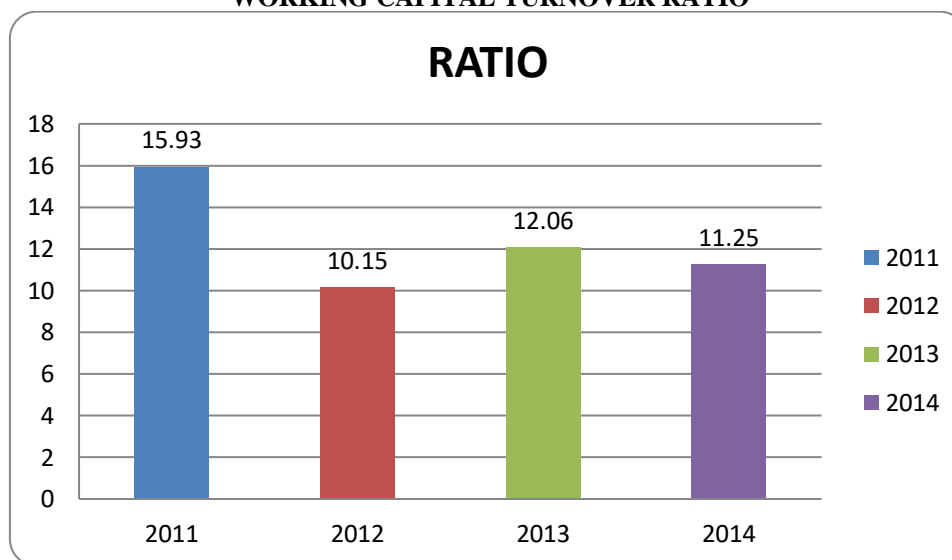


**TABLE – 9****WORKING CAPITAL TURNOVER RATIO = NET SALES / NET WORKING CAPITAL (Rs. In lakhs)**

YEARS	NET SALES	NET WORKING CAPITAL	RATIO
2011-12	284.34	17.87	15.93
2012-13	495.93	48.83	10.15
2013-14	974.88	80.79	12.06
2014-15	1418.21	125.97	11.25

**Source:** Collected from company's balance sheet**Inference:**

This ratio indicates the extent of working capital turnover in achieving the sales of organization. Working capital turnover ratio is fluctuating compared from 2011-12 to 2014-15. In 2011-12&2013-14 achieving the sales of the organization and further 2012-13 and 2014-15 decreased the working capital ratio increase i.e. 10.15 and 11.25. It means decrease in realizing the sales.

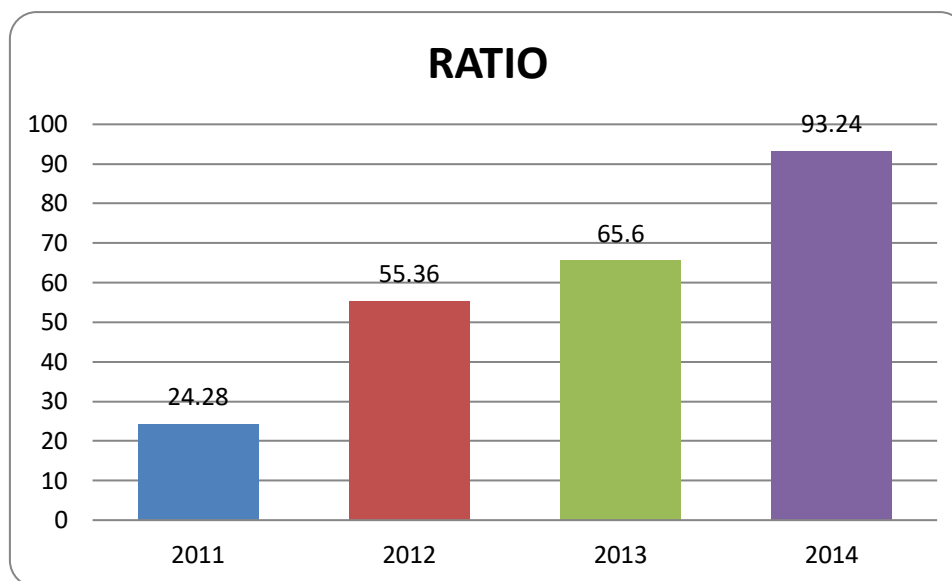
**CHART – 9:  
WORKING CAPITAL TURNOVER RATIO****TABLE – 10****RETURN ON INVESTMENT = NET PROFIT / CAPITAL EMPLOYED \* 100  
(Rs. In lakhs)**

YEARS	NET PROFIT	CAPITAL EMPLOYED	RATIO
2011-12	6.07	25.00	24.28
2012-13	13.84	25.00	55.36
2013-14	32.80	50.00	65.60
2014-15	50.35	54.00	93.24

**Source:** Collected from company's balance sheet**Inference:**

Above the table shows at Return on Investment in 2011-12, 2012-13, 2013-14 and 2014-15 are 24.28, 55.36, 65.60 and 93.24 respectively. Return on investment ratio are increasing from 2011-12 to 2014-15.

**CHART – 10**  
**RETURN ON INVESTMENT**



## IX. CONCLUSIONS

Financial planning is an essential piece of financial management which manages the management of an association's funds with the end goal of augmenting profit and the abundance of investors. The reason for financial planning is to figure out where the firm has been, the place it is currently, and where it is going. It likewise decides deviations from the in all probability result. Account is worried about the study of the problems associated with obtaining and utilization of funds by a business undertaking.

Financial planning includes breaking down financial flows of a company in general, forecasting the results of different investment, financing and profit decisions and weighting the impacts of different options. Financial planning is the centre of financial management. It causes management to maintain a strategic distance from waste by outfitting approaches and techniques which make conceivable a closer coordination between the different elements of the business.

From the aftereffects of the study, strategy is recommended to concoct sound financial planning measures which can be integrated into the financial management framework as financial planning is an essential piece of financial management which manages the management of an association's funds with the end goal of expanding profit and the abundance of clients and investors. Financial planning is the centre of financial management where it encourages management to stay away from waste by outfitting arrangements and strategies which make conceivable a closer coordination between the different elements of the business.

From the study chronicled weaknesses in the financial planning process continue, constraining the apparent value of the financial planning inside the organizations. The

procedure keeps on being time consuming, iterative, and loose. Business changes and vulnerability are driving factors referred to as foundations for planning changeability from real execution. Organizations where the financial planning process leverages outside pointers and business drivers are exhibiting a more elevated amount of achievement in bridling vulnerability and conveying forthcoming bits of knowledge with higher certainty and precision.

The call for activity to on a very basic level enhance the financial planning procedure should come straightforwardly from senior management and business-unit administration and take need over other contending fund and business activities in order to enhance financial execution in the automobile industry.

## LIMITATIONS OF THE STUDY

It was hard to measure the level of the financial execution of the organizations in the chose industry with constrained subjectivity. The researcher depended on reactions to measure the financial execution of the organizations under study.

Time was likewise restricted and maybe other information accumulation methods, for example, secondary information Planning and meetings or up close and personal communication would have been utilized and the target populace would have been extended to incorporate more organizations.

It was hard to persuade the members to effectively take an interest in the examination the same number of guaranteed they were either too occupied to even consider finding time to take care of the questionnaire and some however few did not answer the questionnaires.

Absence of sufficient help from specialists to edit, proof read and offer extra direction while leading and closing the examination project. The researcher needed to buy and by edit and proof read the examination project.

### RECOMMENDATIONS

Comparative studies to be done in more organizations so as to contrast the discoveries and the discoveries of this study. A survey would reveal more insight than only a case of chosen organizations in the industry.

Information to be gathered from various sources. This would incorporate further case studies, meetings or vis-à-vis communication, and secondary information Planning. This would enhance and enhance the study at present been completed.

A study could be done concentrating on the adequacy of financial planning in upgrading the financial execution of firms in the automobile industry in Kenya. This would draw out the real impact that financial planning has had to an organization which has effectively integrated financial planning.

### REFERENCES

- [1]. Choudhury: Project Management, Tata McGraw Hill, New Delhi – 1995
- [2]. Gopala Krishnan and V. Rama Moorthy: Project Management
- [3]. M. Pandey: Financial management for Project Based firms, Vikas Publishing. Ed. 8.
- [4]. J.H. Lorie and L.J.Savage, “Three Problems in Rationing Capital,” Journal of Business, vol. 28 (Oct 1955), pp. 227-239.
- [5]. Johan, M. Nicholas: Financial Management for Business & Technology, Ed. 2nd.
- [6]. Laura Brown and Tony Grundy: Strategic Management
- [7]. M.Shaghil and M. Mushtaque: Project Planning and Management Vol. 1
- [8]. Martin H.Weingartner: Mathematical Programming and Planning of Capital Budgeting Problems, Prentice Hall
- [9]. Prasana Chandra: Financial Management, Tata McGraw Hill, New Delhi.
- [10]. Prasana Chandra: Projects-Planning Planning, Selection, Implementation & Review, Tata McGraw Hill, New Delhi.
- [11]. Prasanna Chandra: Project, Tata McGraw Hills
- [12]. Project Management by C. Choudhury, Tata McGraw Hill, New Delhi.
- [13]. Project Management by Vacant Desai, Himalaya Publishing House, New Delhi.
- [14]. Projects Preparation, Appraisal, Budgeting and Implementation by Prasanna Chandra, Tata McGraw Hill Publishing Company Ltd., New Delhi.