# Course: Functions of a Typical Business Enterprise

**Some of the important categories under which the functions of a typical business enterprise can be broadly clas­sified are as follows:**

1. Finance function,2. Marketing function,3. Production function,4. Human Resources Management function,5. Information function.

 **Finance Function and Information Needs:**

The traditional role of a finance manager involved activities relating to preparation of financial reports regarding the performance of the enterprise and its financial position along with rising of funds to meet the needs of the enterprise.

As a result, accountants were considered most suitable for the job of finance manager. However, today’s finance manager is concerned with the total amount of capital employed with the enterprise, allocation of funds to vari­ous activities and measurement of the outcome of these activities in the light of the common goals of the enterprise. This involves investment decision, financing decision, dividend decision, portfo­lio management, asset management etc. In addition, finance man­agement has the responsibility of maintaining proper accounting records regarding performance of various components of the en­terprise for the purpose of reporting to a variety of users of the accounting information.

**Thus, the finance manager performs func­tions leading to liquidity, profitability and proper management of assets. The activities of a finance manager, thus, fall into follow­ing major domains:**

i. General Ledger Accounting,ii. Financial Planning and Budgeting,iii. Assets and Liability Management,iv. Profitability Analysis,v. Cash and Fund Flow Management,vi. Evaluation of Funds and Investments,vii. Cost Analysis,viii. Responsibility and Profitability Reporting.

#### Financial Planning and Budgeting:

Allocation of funds to various activities in the business is one of the major functions of a finance manager. Budgets as financial plans involve prediction of outcome of various business strategies and anticipating the changes in the market forces that influence the performance of the enterprise. These predictions are made on as­sumptions regarding the future. The outcomes of the activities need to be interactively investigated so that a corrective action could follow without loss of time.

A prompt corrective action can help mitigate the possible damage to the interest of the enterprise when the predictions go wrong for reason of unrealistic assumptions or faulty algorithm of the prediction model.

#### Assets and Liability Management:

Profitability is determined by the utilisation of resources of an en­terprise. The asset management is thus one of the key responsibili­ties of a finance manager. IT infrastructure can provide informa­tion to a finance manager for management of assets and monitor­ing their utilisation on a regular basis.

The redundant assets may be discarded, disposed off or re-positioned to ensure that they add value to the achievement of objectives of the enterprise.

#### Profitability Analysis:

Profitability analysis is an important activity in the finance de­partment. With the fast changing market scenario, there is a need to keep a constant vigil on the profitability curve and reorient the business processes accordingly. This profitability analysis not only forms the basis of the plan for allocation of funds for various activi­ties but also guides the finance manager in taking decisions like ‘continue or quit’, and pricing.

#### Cash and Funds Flow Management:

Management of cash and funds flow has always been the concern of finance managers. In-spite of this being a well-researched area in financial management, mismanagement of cash is a reoccurring phe­nomenon in business enterprises.

For an effective cash and funds management, it is essential to have information regarding the de­mand and likely availability of liquid resources from operations, in­vestment decisions and financing decisions.

Since the information regarding the likely demand and availability of cash and funds from operations is influenced by the dynamics of market forces and a host of other factors, it becomes very difficult to accurately estimate the demand and availability of funds for each plan period.

Even within the plan period, there is a need to ensure resource leveling as is done in case of project management. A large amount of information regarding activities in operating cycle is required for decision mak­ing in respect of cash and fund flow management.

#### Evaluation of Funds and investments:

Investment decision refers to the selection of assets in which funds should be invested. This would involve evaluation of alternative pro­posals, selection of financially viable proposals and determination of priority of investment in different activities.

Cost of funds or capital is the basic element of the selection criteria. The information required for evaluation of proposals is becoming more and more probabilistic and the estimation is becoming more and more complex as we enter new pastures and unbeaten tracks in business.

#### Cost Analysis:

Cost analysis is an important activity that a finance manager under­takes regularly in order to control the cost and value of inventory. The cost information is also used as an important informational input in pricing decision. As the cost information is required almost on real time basis, the manual information systems for cost analysis did not offer much value to business decision making.

#### Responsibility and Profitability Reporting:

Responsibility accounting involves establishment of short-term ac­tivity goals as performance standards for different organisational units called responsibility centres. It is a control technique which involves monitoring the actual performance against the standards, identifying the controllable and uncontrollable costs and revenue factors, and measurement of performance of each responsibility centre in view of the information so generated.

