Journal of Contemporary Administration and Management (ADMAN)
ISSN: 2988-0394 Print / XXXX-XXXX Online
Vol 1, Issue 1, April 2023, Page 13-16
https://journal.literasisainsnusantara.com/index.php/adman

Financial Management Concepts: A Review

Siti Sukenti[1]*

[1]Department of Business Administration, Faculty of Administrative Science, Universitas Subang, Jawa Barat, Indonesia

Email: sukentisiti10@gmail.com[1]

Abstract. Effective and functional financial management can be found in financial management. Financial management is a financial management process that organises financial activities from planning, implementation and control to financial accountability. However, when it comes to educational institutions, the impact is quite significant. This research aims to find out the definition, principles and concepts of return assessment in financial management. This research is literature research, and the data used is secondary data from various literatures. Qualitative descriptive method is used to assess the data obtained. Based on the description of the findings, financial management can be interpreted as business activities related to the acquisition, use and management of company funds to achieve the company's main objectives. Good financial management is certainly needed. The need for financial management can be concluded as the need to identify the objectives that must be met, the right choice is the one that advances the company's goals; usually, the purpose of financial management choices is to maximise the company.

Keywords: Concept, Finance, Management, Review

1. Introduction

Effective and functional financial management can be found in financial management [1] [2]. Financial management is a financial management process that organises financial activities from planning, implementation and control to financial accountability [3]. However, when it comes to educational institutions, the impact is quite significant. And the role to manage financial management consists of three interrelated areas namely; (1) Capital Markets (Macro Finance), which is related to many of the topics covered by macroeconomics, (2) Investment, which focuses on the decisions made by individuals and financial institutions in selecting securities (securities) for their investment portfolios, and (3) Financial management in relation to business management. The three areas described above interact with each other, so corporate financial management needs to understand how capital markets work and how investors value securities. Financial management has undergone some major changes over the years. When it emerged as a distinct discipline in the early 20th century, its focus was on the legal aspects of mergers, acquisitions and start-ups and the various securities issued by companies. The CFO must play a key role in determining the total value of the company if money is to be used to maintain standard operating procedures within the organisation. This is necessary as the main objective of the company is to determine its value to the shareholders. This clause is based on the company's current share price on the stock exchange, which at the time of this writing serves as a function of the company's investment, consumption, and profit-sharing objectives. Success across the organisation will be greatly influenced by the CFO's ability to adapt to such changes, source finance, invest assets and manage them wisely.

1.1 Problem Formulatio

- Definition and role of financial management
- Objectives and principles of financial management
- The concept of return assessment in financial management
- The role of financial markets in financial management

1.2 Purpose of the Paper

- Know the definition and role of financial management
- Know the objectives and principles of financial management
- Know the concept of return assessment in financial management

Journal of Contemporary Administration and Management (ADMAN)
ISSN: 2988-0394 Print / XXXX-XXXX Online
Vol 1, Issue 1, April 2023, Page 13-16
https://journal.literasisainsnusantara.com/index.php/adman

- Know the role of financial markets in financial management

2. Method

This research on the concept of financial management uses secondary data from various literatures and previous articles. The collected data was analysed using a descriptive qualitative approach with the steps of data reduction, data display, verification, and conclusion.

3. Result and Discussion

3.1 Definition and Role of Financial Management

According to the website financialku.com, the definition of financial management includes all business activities related to the acquisition, use and management of company funds to achieve the company's main objectives. According to [4] Financial management can be interpreted as good fund management, which refers to the efficient allocation of funds in various types of investments, as well as trying to raise funds to finance efficient investment or consumption. Liefman says financial management is the business of providing money and using money to buy or acquire property. Suad Husnan says that financial management is the management of financial activities. Grestenberg says financial management is "how companies are organised to raise funds, how they raise funds, how they are used and how company profits are distributed." James Van Horne says that financial management is all activities related to the acquisition, financing, and management of assets with general objectives. Bambang Riyanto said that financial management is the activity of all companies related to efforts to raise the necessary funds at the minimum possible cost and in accordance with the most favourable conditions and efforts to use these funds as efficiently as possible.

3.2 Objective and Principles of Financial Management

The need for financial management can be summed up as the need to identify the objectives to be met, the right choice is the one that advances the company's objectives; usually, the objective of financial management choices is to maximise the company. Enterprise value is the amount a buyer would put up for a business if it were to be sold. The trader makes more money, the more valuable his company is. Though in terms of economics, managing the value of a business is not the same as profit maximisation because economics is referred to as the amount of wealth that is often consumed without expanding the wealth of the owner. The goal of financial management is to increase the value of the company. There are several ways to increase company value such as through investment decisions, funding decisions, asset management decisions. Investment decisions are the most important corporate decisions, the first step is to determine the total amount of assets needed by the company. Financial managers should look for liabilities (current liabilities and long-term debt) and fixed assets (equity) on the right side of the balance sheet, while assets on the left side. Investment decisions are usually made using the formula: Assets = Assets - Capital (Liabilities).

The financing decision is the second major decision, in which the finance manager deals with making decisions on the right side of the balance sheet (the passiva side). After deciding on the combined financing, the finance manager still needs to determine how well the funds are needed. The mechanisms for obtaining short-term credit, entering into long-term leases, or negotiating the sale of bonds or shares are matters that must be fully understood. The next financial management decision to increase funding within the company is the asset management decision. Once assets are acquired and adequate financing is in place, they still require effective management. Financial managers have different levels of responsibility when carrying out the management of existing assets. This responsibility requires financial managers to pay more attention to the management of fixed assets than fixed assets [5].

3.3 Concept of Assessment of Results in Financial Management

Financial statements have an important role in storing information that includes company balance sheet information which includes company balance sheet information [6]. The financial statements presented by the company must be accompanied by solid, fundamental and sustainable supervision, such as Financial Management (FSA). Financial reports are needed in all types of businesses, not only large companies but also small businesses are expected to produce complete financial reports such as: 1, where financial statements are part of the accounting process, which includes balance sheets, income statements, including cash flow statements. The company is the entity responsible for managing the company's resources [7]. The resources managed must be able to generate value for those who invest in the company, in this case the owners or shareholders of the company [8]. Management then uses these resources in its day-to-day business, which can be divided into three functions financial activities, investment activities and operations [9]. To master financial

Journal of Contemporary Administration and Management (ADMAN)
ISSN: 2988-0394 Print / XXXX-XXXX Online
Vol 1, Issue 1, April 2023, Page 13-16
https://journal.literasisainsnusantara.com/index.php/adman

management, a manager must understand the basics of return valuation. The first is the Time Value of Money Understanding the time value of money. One of the bases for considering financial decisions and policies is the time value of money. Money can be said to have a higher value in the present than in the future. Because you can make payments at that time if you earn a certain amount of money today. The Impact of Time The value of money can be simply understood as a comparison between current and future dollars that takes time into account. Furthermore, there is a discount rate which is a variable or rate that relates the value of money to time. The time value of money refers to this discount. The idea of the time value of money is important for two reasons. Firstly, if the money received occurs in the future, there is risk (an element of uncertainty). Since future events and human lives are unpredictable, money earned now is quite certain and clear. Secondly, by not having the money to invest earlier (now), there may be missed profit opportunities.

[10] [11] supports this statement by stating that the time value of money is one of the most important concepts in financial management since Rp. 1 will be worth less in the future than it is now. The time value of money is the name given to this relationship. In order to create optimal value for shareholders, companies must choose the ideal combination of investment decisions, financial management financing and dividends. The idea of a favourable correlation between risk and expected rate of return is applied when evaluating securities. The second is present value, which is the amount that, if held today and invested at a certain interest rate, would equal future income at the maturity date, known as present value. In general, use the following formula to calculate the idea of present value: $PV = FV / (1 + r)^n$.

This is reinforced by the statement that present value is the value of money that will be received in the future. Every Rp 1 received today will be worth more than Rp 1 received in 1, 2, 3 years from now. Calculating the present value of future cash flows allows all cash flows to be placed on a present value basis, so they can be compared to the current value of the Rupiah. In addition to present value, there is future value, which is a future value that is easy to predict once the growth rate is determined with certainty. This future value can also be used to estimate or calculate the amount of funds that will be held in the future. Future value can be found by: $PV \times (1+ (i \times n))$.

3.4 The Role of Financial Markets in Financial Management

The net profit or cash flow obtained from an investment is known as the rate of return. Investment is the act of putting money (capital) to work in the future in the hope of earning money (profit). Risk, on the other hand, is the chance that the actual rate of return on an investment will differ from the anticipated rate of return. Consumers who spend money are potential investors. They are influenced by marketing, company brand perception, and prices in particular. Investors allocate their assets to various investment opportunities in an attempt to be knowledgeable or experienced buyers who select a portfolio of securities, The price of a security in the market reflects the market consensus that forecasts the value of the security in question, which is a sign of an efficient financial market. If the market is effective, it will calculate prices based on all available data. If the prices of the assets exchanged reflect all available information about the state of the economy, financial markets, and the companies involved, then the market is considered efficient. One of the metrics used to assess the quality of a capital market is its efficiency. The quality of the capital market increases as efficiency increases. The three forms or levels of capital market efficiency are: (1) weak efficiency, (2) semi-strong efficiency, and (3) strong efficiency. (3) Strong efficiency. expected returns that are unrelated to previous unexpected returns. In other words, there is no memory in the market. Knowing the past will not help you get future rewards. Semi-strong form efficiency suggests that some information that is already publicly available is irrelevant. The strong nature of business efficiency, however, suggests that it has a close relationship with all types of information, both public and private.

In addition, there is risk in analysing financial management. Risk is the deviation of the expected return from the planned (expected rate of return) return (actual return). Investment risk is the threat that investors face that they may not receive their expected returns as a result of future uncertainties. There are three general attitudes to handling risk: (a) risk appetite, (b) risk aversion, and (c) risk indifference. The three attitudes are: (a) risk appetite, (b) risk avoidance, and (c) risk indifference. However, there are some risks that cannot be controlled (uncontrollable risk), but can be handled in such a way that they can be reduced (control risk). Thus, risk types are divided into: 1. Individual risk, or the risk arising from an investment venture alone, unrelated to other projects. 2. Corporate risk, which is the risk calculated without taking into account investor diversification or portfolio management. 3. Market risk or often referred to as beta is investment risk seen from the point of view of investors who place their money on investments that are also made by other businesses and businesses. How much risk there is diversification does not eliminate it.

4. Conclusion

Based on the above description, financial management can be interpreted as business activities related to the acquisition, use and management of company funds to achieve the company's main objectives. Good financial management is certainly needed. The need for financial management can be summed up as the need to identify the objectives that must be met, the right choice is the one that advances the company's goals; Usually, the goal of financial management choices is to maximise the company.

References

[1] M. Mihajlović, D. Tadin, and B. Gordić, “The role of financial management in the company,” *Tehnika*, vol. 75, no. 4, pp. 498–503, 2020, doi: 10.5937/tehnika2004498M.

[2] A. P. Irawan, E. Supriyatna, I. Widjaja, and L. L.-C. Lin, “The Implementation of Basic Principles of Financial Management to Improve Higher Education Reputation,” in *Proceedings of the International Conference on Economics, Business, Social, and Humanities (ICEBSH 2021)*, ATLANTIS PRESS, 2021, pp. 1510–1514.

[3] V. Grozdanovska, K. Bojkovska, and N. Jankulovski, “Financial Management and Financial Planning in the Organizations,” *European Journal of Business and Management*, vol. 9, no. 2, pp. 120–125, 2017.

[4] A. Sartono, *Manajemen Keuangan International*. Yogyakarta: BPFE, 2003.

[5] C. Li, H. Dong, S. Chen, and Y. Yang, “Working Capital Management, Corporate Performance, and Strategic Choices of the Wholesale and Retail Industry in China,” *The Scientific World Journal*, vol. 2014, pp. 1–15, 2014, doi: 10.1155/2014/953945.

[6] A. Nona, A. Nurharyanto, and K. M. Lubis, “Pengaruh Free Cash Flow dan Leverage Terhadap Kualitas Laba Perusahaan (Perusahaan YangTerdaftar Di Bursa Efek Indonesia),” *HUMANIS*, vol. 1, no. 2, pp. 203–212, 2021.

[7] I. Rustiawan, A. M. A. Ausat, S. S. Gadzali, Suherlan, and H. K. Azzaakiyyah, “Determinants of Employee Dedication to the Company as a Whole,” *Community Development Journal: Jurnal Pengabdian Masyarakat*, vol. 4, no. 1, pp. 708–712, 2023, doi: 10.31004/cdj.v4i1.12454.

[8] Sutrisno, H. Sitinjak, P. Diawati, I. Y. Sitinjak, and A. M. A. Ausat, “Telaah Dampak Positif Gaya Kepemimpinan Transformasional bagi Peningkatan Produktivitas Individu dan Organisasi,” *Community Development Journal : Jurnal Pengabdian Masyarakat*, vol. 4, no. 1, pp. 726–731, 2023, doi: 10.31004/cdj.v4i1.12483.

[9] S. S. Gadzali, S. Santosa, A. Choerudin, I. Ayesha, and A. M. A. Ausat, “Resource Essence Analysis In Management,” *Jurnal Ekonomi*, vol. 12, no. 02, pp. 532–536, 2023, Accessed: Apr. 04, 2023. [Online]. Available: https://ejournal.seaninstitute.or.id/index.php/Ekonomi/article/view/1651

[10] I. Slobodnyak and A. Sidorov, “Time Value of Money Application for the Asymmetric Distribution of Payments and Facts of Economic Life,” *Journal of Risk and Financial Management*, vol. 15, no. 12, p. 573, Dec. 2022, doi: 10.3390/jrfm15120573.

[11] M. Irena and B. Mariana, “The Time Value of Money in Financial Management,” *“Ovidius” University Annals, Economic Sciences Series*, vol. XVII, no. 2, pp. 593–597, 2017.