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PREFACE

The textbook “Financial and Investment Management” is offered for students studying in the fields of knowledge 05 “Social and Behavioural Sciences”, 07 “Management and Administration”, 27 “Transport”, 28 “Public Management and Administration”, and 29 “International Relations”.

The purpose of studying the subject “Financial and Investment Management” is forming by students an integral system of theoretical and practical knowledge on managing financial resources of enterprises and organisations of different ownership forms, financial strategy development, and capital valuation, financial risk management; formation of modern economic thinking and knowledge system in the field of investment management of enterprises, mastering the basic theoretical provisions and the necessary practical skills to ensure its effectiveness.

The authors of the textbook aimed at systematizing the presentation of a knowledge complex on financial and investment management practices to operate on different markets and in different conditions.

Financial management is an important component of the overall management structure of an enterprise. In order to avoid a significant part of the financial risks faced by enterprises, it is necessary to develop an effective financial management system. In addition, sound financial management can help a company maintain a strong market position in a fiercely competitive environment. The level of financial management organisation and control over the optimal use of funds and profitability of operations determines how timely, with minimal costs, and without losing financial independence, the company will be provided with the funds necessary for the effective running of its business.

In implementing various types of economic activities, it is important to know and be able to apply methods of optimal use of financial resources, be able to manage cash flows, apply a systematic approach to managing the company’s assets, profits, and investments, be able to determine and analyse the cost of capital and optimise its structure, as well as to be able to correctly assess financial risks and apply crisis

management tools. Investment activity at an enterprise, which is one of the most complex areas of management, requires in-depth knowledge of economics and finance, a systematic approach, mastery of economic and mathematical modelling methods, etc. It requires the knowledge and skills that allow to formulate and ensure the implementation of strategic decisions and contribute to the economic development of the enterprise in the future. The specificity of investment management and the complexity of methodical tools have led to the emergence of a new scientific area in the theory of finance – investment management, which is an area that studies the forms and mechanisms of investment management to ensure the effective development of the enterprise and the constant growth of its market value.

In modern conditions, it is extremely important to possess the necessary knowledge and tools to be able to identify the best objects for investment, to be able to prepare a convincing business plan for a project or company, to understand what tools should be used to develop investment activities, to be able to apply modern methods of assessing the effectiveness of projects in business, to identify the best sources of funding for investment projects, and to be able to solve practical problems related to budgeting for investment projects, conduct analysis of investment decisions, and search for alternative investments.

The textbook contains discussion questions, tests and case studies, which should facilitate the practical mastering of the material and the ability to solve particular practical problems.

Contribution of the authors is as follows: O. Staschuk personally developed sections 1.2 and 1.4; N. Biletska personally developed sections 1.1 and 1.3; T. Kulinich personally developed sections 1.5 and 2.1; O. Suzdaliyeva personally developed sections 1.6 and 2.2; L. Lytvynenko personally developed sections 2.5 and 2.6; Y. Popova personally developed sections 2.3 and 2.4; all authors jointly developed references.

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MODULE 1. FINANCIAL MANAGEMENT

1.1. THE GOALS, FUNCTIONS AND TYPES OF FINANCIAL MANAGEMENT

Essence financial management

Financial management, also known as business finance, is a specific area of finance that deals with financial decision-making inside a business entity. Financial management is often referred to as corporate finance. Though, the financial management principles are also applicable to different forms of business and public institutions. In addition, not all non-state enterprises are corporate entities. Financial managers are mainly involved in investment and financial decisions in business organisations, regardless of whether the organisation is a sole proprietorship, partnership, limited liability company, corporation or public institution [1].

Finance supports decision-making on how to obtain funds and determine their use once they are available. It is the financial system providing the framework through which funds are channelled from entities holding funds to entities needing them. The fundamentals of finance are rooted in economics, and consequently finance is frequently called financial economics. Finance and its connection with other spheres are shown in Fig. 1.1.1 [2].

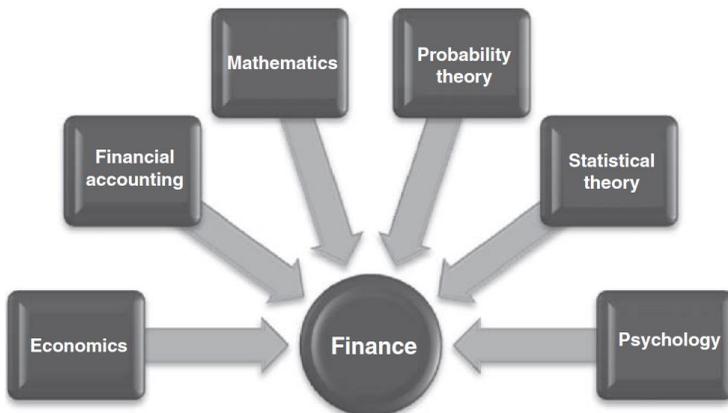


Fig. 1.1.1. Finance and its connection with other spheres

The field of finance can be viewed as consisting of the following three areas: capital markets and capital market theory, financial management and investment management (Fig. 1.1.2) [2].



Fig. 1.1.2. Three interrelated areas of focus in finance

Investment decisions relate to the use of funds - buying, maintaining or selling all types of assets: Should the business buy new equipment? Should the company launch a new product line? Sell an outdated manufacturing plant? Purchase a new company? Develop a production plan? Continue to hold higher inventory levels? Should financial managers keep the profits earned from the firm's revenues or divide them among the owners? Should financial managers be looking for money external to the business? Financial decisions address the generation of funds available for long-term investment and financing of regular operations [1].

Operations and investments in a company can be financed externally by raising debt – for instance, through bank loans or selling bonds – or by offering for sale an equity stake. Since each financing method obliges the business under different circumstances, financing decisions are crucial. The decision on financing includes the decision on dividends, determining how much of the company's profits are to be retained and how much is to be divided among the owners [1].

The financial strategic plan of a company is the foundation to achieve its goal of shareholder capital maximisation. The strategic plan

execution demands long-term, medium-term and short-term financial planning, which combines the company's sales forecasts with financing and investment decisions. Budgets are used for managing the information used in such planning; performance indicators, such as the balanced scorecard and economic value added, are applied to measure progress in achieving strategic goals [1].

A firm's capital structure refers to the combination of debt and equity that management decides to use to finance its operations. The first economic theory on the capital structure of a firm was suggested by Franco Modigliani and Merton Miller in the 1960s. There are cases when financial managers try to design financial tools for funding purposes beyond what traditional products can provide. This involves restructuring or repackaging cash flows and/or using derivatives. Current assets are those that may reasonably be converted into cash during one operating cycle or one year, depending on the longer of the two. Current assets comprise cash, available-for-sale securities, accounts receivable and inventories and are intended to support a company's strategic investment decisions [1].

Financial management is a flexible management mechanism oriented towards rapid shifts in the internal and external economic environment. The successful operation and long-term viability of any business depends on a continuous sequence of managerial decisions that have an economic impact on the business. The consequences of these decisions are the direction of financial resources that support the business.

Financial management covers a wide range of various types of decisions. Specifically, these decisions can be classified into the following three groups: investment decisions, financing decisions, and decisions combining both investment and financing. Investment decisions relate to the use of funds – buying, holding or selling all kinds of assets: Do we need to buy a new machine? Is it worth to expand the product portfolio? Should we sell unused assets? Should we acquire the foreign company to enter the market? Is it worth building a warehouse? Should we deposit money in the bank? [1].

A lot of business decisions simultaneously involve both investing and financing. For instance, a company can decide to acquire a business – it is an investment decision. Still, the success of the acquisition de-

depends on its financing: by borrowing money to cover the purchase price, by selling additional stakes, or by trading shares. If decision makers choose to lend money, the borrowed capital should be repaid in due time. Lenders (those who borrow money) usually do not participate in controlling the profits of the lending firm. In contrast, if managers choose to raise funds by selling an equity stake, these funds never need to be repaid [1].

Financial management is not limited to large corporations: it is required for all business forms and sizes. Sole proprietorship, partnership and corporation are the main business organisation forms [1].

The above mentioned forms differ in a number of ways (Fig. 1.1.3), the most important of which are those related to the financial decision-making [1].

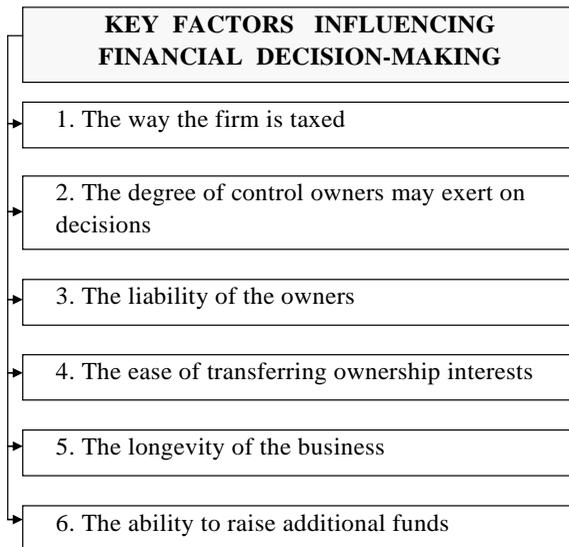


Fig. 1.1.3. Factors most important to financial decision-making

Many in-depth studies were conducted on cost accounting issues. Also, there are a large number of researches on project management, however, the binding factor that links these two areas together is the wider study on financial management [3].