Meaning, Importance & Objectives of Financial Planning

3 Marks Questions

1. What is meant by financial planning? State any two points of importance of financial planning. (Compartment 2014; All India 2012; Delhi 2012)
or
'Financial planning tries to link the present with the future'. Explain the importance of financial planning in the light of this statement. (HOTS; Delhi 2010 C, 2008; All India 2009)
or
Explain the meaning of financial planning. Why is it important? Give any two reasons. (All India 2010)
or
What do you understand by the term financial planning? Describe why financial planning is essential in financial management? (All India 2009)

Ans. Financial planning is the preparation of financial blueprint, which foresees entire fund requirement in respect to quantum as well as the timing. It is the process of estimating the fund requirements of business and specifying the sources of funds. It involves the preparation of a financial blue print of an organisation's future operations. The objective of financial planning is to ensure that enough funds are available at right time.
Financial planning is essential in financial management because: (Any two)
(i) Helps in avoiding business shocks and surprises Proper provision regarding shortage or surplus of funds is made by anticipating future receipts and payments. Hence, it helps in avoiding business shocks and surprises.
(ii) Helps in coordination It helps in coordinating various business activities, such as sales, purchase, – production, finance, etc.
(iii) **Helps in avoiding wastage of finance** In the absence of financial planning, wastage of financial resources may take place. This arises due to the complex nature of business operations such as, excessively over or under estimation of finance for a particular business operation. $uch type of wastages can be avoided through financial planning.

2.' Financial planning is a financial blue print of an organisation's future operations'. Explain the twin objectives of financial planning in the light of this statement. (HOTS; Ali India 2010, 2009; Delhi 2009)

Ans. Financial planning strives to achieve the following two objectives
(i) To ensure availability of funds whenever these are required This includes a proper estimation of the funds required for different purpose such as for the purchase of long-term assets or to meet day-to-day expenses of business, etc. Apart from this, there is a need to estimate the time at which these funds are to be made available. Financial planning also tries to specify possible sources of these funds.

(ii) To ensure unnecessary finance is not raised Excess funding is almost as bad as inadequate funding. Even if there is some surplus money, good financial planning would put it to the best possible use so that the financial resources are not left idle and don't unnecessarily add to the cost.

4/5 Marks Questions

3. Explain any four points that highlight the importance of financial planning. (Delhi 2014)
or
What is meant by financial planning? State any three points of its importance.(All India 2013)

Ans. **Meaning of financial planning** Financial planning is the preparation of financial blueprint, which foresees entire fund requirement in respect to quantum as well as the timing. It is the process of estimating the fund requirements of business and specifying the sources of funds. It involves the preparation of a financial blue print of an organisation's future operations. The objective of financial planning is to ensure that enough funds are available at right time.
The following points highlight the importance of financial planning:
(i) Helps in coordinating By providing clear policies and procedures, it helps in coordinating various business functions.
(ii) Helps in operational activities Success or failure of every business function depends upon the financial decision. It helps in giving the framework under which operational activities are carried on effectively.
(iii) Proper utilisation of funds Finance acts as the life-blood for an organisation. For smooth functioning, it is required by every organisation. Financial planning ensures availability of funds whenever required. Thus, it helps in proper utilisation of funds.
(iv) Base for financial control It helps in providing the base for checking and comparing activities from the financial viewpoint.

4. What is required to tackle the uncertainty in respect of availability and timings of funds? Name the concept involved and explain three points of its importance. (HOTS; All India 2008; Delhi 2008)
or
Name the process which helps in determining the objectives, policies, procedures, programmes and budgets to deal with the financial activities of an enterprise, explain its three points of importance. (Hots; Delhi 2008)

Ans. Financial planning helps in determining the objectives, policies, procedures, programmes and budgets to deal with the financial activities of an enterprise.
Importance of financial planning Financial planning is the preparation of financial blueprint, which foresees entire fund requirement in respect to quantum as well as the timing. It is the process of estimating the fund requirements of business and specifying the sources of funds. It involves the preparation of a financial blue print of an organisation's future operations. The objective of financial planning is to ensure that

enough funds are available at right time.
The following points highlight the importance of financial planning:
(i) Helps in coordinating By providing clear policies and procedures, it helps in coordinating various business functions.
(ii) Helps in operational activities Success or failure of every business function depends upon the financial decision. It helps in giving the framework under which operational activities are carried on effectively.
(iii) Proper utilisation of funds Finance acts as the life-blood for an organisation. For smooth functioning, it is required by every organisation. Financial planning ensures availability of funds whenever required. Thus, it helps in proper utilisation of funds.
(iv) Base for financial control It helps in providing the base for checking and comparing activities from the financial viewpoint.

6 Marks Question

5. What is meant by 'financial planning'? Explain any five points which highlight its importance. (Delhi 2013)
or
'Sound financial planning is essential for the success of any business enterprise'. Explain this statement by giving any six reasons. (Hots; ah India 2011; Delhi 2011)
or
Explain the term 'financial planning' and any four points of its importance in financial management. (Delhi 2011 c)

Ans. Financial planning is the preparation of financial blue print, which foresees entire fund requirement in respect to quantum as well as the timing.
Various points of importance of financial planning are:

(i) **Helps to face the eventualities** It forecasts the future business situations which helps in preparing alternative financial plans to face the eventual situations.

(ii) **Helps in avoiding business shocks and surprises** Proper provision regarding shortage or surplus of funds is made by anticipating future receipts and "payments. Hence, it helps in avoiding business shocks and surprises.

(iii) **Helps in coordination** It helps in coordinating various business activities, such as sales, purchase, production, finance, etc.

(iv) **Helps in avoiding wastage of finance** In the absence of financial planning, wastage of financial resources may take place. This arises due to the complex nature of business operations such as, excessively over or under estimation of finance for a particular business operation. Such type of wastages can be avoided through financial planning.

(v)**Helps to link the present with the future** It makes efforts to link the present with the future. By doing so, it helps to minimise the risks of future uncertainties.

(vi) **Helps in creating link between investment and financing decisions** It helps in deciding that where the to invest and from where the required funds will be made available. Under it, the mix of share capital and debt capital is made in such a manner that cost of capital is reduced to minimum.