

HSC Business Studies

Topic 2 – Financial Planning and Management

UNIT 2.1 THE ROLE OF FINANCIAL PLANNING (Pages 80 - 92)

Topic Test

- (1) Explain what is meant by financial management? (1 mark)
- (2) How can financial risks be managed? (2 marks)
- (3) Outline the objectives of financial management. (5 marks)
- (4) Outline four ways a business can achieve growth. (4 marks)
- (5) List the financial activities that take place in the planning cycle. (9 marks)
- (6) Define the term insolvency. (1 mark)
- (7) Explain the difference between accounts payable and accounts receivable. (1 mark)

The answers to the questions are...

(1) Explain what is meant by financial management? (1 mark)

- **Financial Management** refers to the planning, organising and controlling of the financial or monetary resources to achieve goals, objectives and plans of the business.

(2) How can financial risks be managed? (2 marks)

- Insurance
- Hedging

(3) Outline the objectives of financial management. (5 marks)

- Liquidity
 - Ability to pay short term obligations
- Profitability
 - Return to Business resulting from activities.
- Efficiency
 - Relationship between the inputs and the outputs.
- Growth
 - Increasing the size / level of business operations.
- Return on Capital
 - Investing in capital for cash outlay.

(4) Outline four ways a business can achieve growth. (4 marks)

- Direct Expansion
 - Increasing revenue using existing resources
- Diversification
 - Growth by merging or acquiring another business in an unrelated industry.
- Merger
 - Combining with other business.
- Acquisition
 - Purchasing another business (takeover).

(5) List the financial activities that take place in the planning cycle. (9 marks)

- Planning financial controls
- Assessing the present financial position
- Developing budgets
- Planning cash flows
- Preparing financial reports
- Interpreting financial reports
- Maintaining record systems

(6) Define the term insolvency. (1 mark)

- **Insolvency** means a business is unable to pay its debts as they fall due (opposite to liquidity).

(7) Explain the difference between accounts payable and accounts receivable. (1 mark)

- Accounts Payable
 - Money owed to creditors (liability)
- Accounts Receivable
 - Money owed by debtors (Assets)