Financial Information System

Business people establish business firms with the view of providing service to society, market, people, and make healthy profit. They invest money to establish business. They invest in office equipments, furnitures, human resources, office space, and other several areas that are vital for the organization. Generally, people collect fund required to establish the business from several sources like banks, other business firms, persons promising to return borrowed amount with interest within specified time.

As the organization goes live, several transactions will take place. People invest money in marketing, supply chain etc; funds go out of the organization and come into the organization by doing business transactions. Several fund related activities will be going on frequently in the organization. The information about all the transaction are kept properly to know the situation of fund and information about any transaction.

Details about budget allocation, employees’ salary, and other all fund related tasks must be maintained properly with high degree of accuracy. That detail will enable managers to know the financial status of their organization, know about the availability of funds. This information will enable managers to make decisions related with the investment of the funds with great ease.

Manual record keeping of the transaction is time-consuming, and searching for the required data timely is even more time consuming and tedious. The poorly managed software program will not be able to satisfy all the information requirements of the organization; it will not be able to give a clear picture of the organization in terms of finance.

To keep abreast with the finance of the organization information system is required which not only keeps record of all the activities related with funds, but also provides facility to calculate several financial ratios, financial measures etc. This type of information system that processes data related to fund and produces information related to fund is financial information system (FIS).

Financial information system (FIS) takes data related to the fund like budget, expenses, incomes; stores and manages those data properly; processes those data and generate several information required to make financial decisions. FIS provides all the information related to investments, loans, taxes of the organization.

Features of FIS

It is difficult to specify features of FIS. Different organizations or users will have their own requirements. In case of organization, some may require FIS for their performance measurement, some may require FIS for decision-making process, and some may require both with additional features.

FIS is an information system that takes data as input and generates reports containing information. For FIS, financial statement is one of the major sources of data. Financial statements show a firm’s position at a point in time and its operations over some past period. The financial statements can also be used to predict future earnings and dividends. Current assets, current liabilities, sales, inventory, receivables, total assets etc and many more are found in financial statements. These data are used as input by FIS to
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generate report concerning performance of company, use of resources of the company, evaluate managerial performance etc.

FIS uses several financial analysis tools like financial ratios for evaluating the performance of company. Liquidity ratio, asset management ratios, debt management ratios, profitability ratios, and market value ratios are some of the financial ratios used to know the position of firm at a point in time and its operations over some past period. In addition, using financial statement performance of a firm can be analyzed.

FIS can also be used to make decision regarding investments. Investors invest in business expecting good return from their investment; they do not like risk. People will invest in riskier assets only if they can receive higher returns. However, there is a question how to know which business in more safe or riskier compared to others. Several financial tools exist to compare different business options for investment in terms of riskiness.

FIS can also have feature for analyzing time value of money. “A dollar today is worth more than a dollar in distant future.” It is necessary for financial managers to have a clear understanding of the time value of money and its implications on different aspects. The principle of time value analysis have many applications: setting up schedules for paying off loans, decisions about how to acquire new equipment.

Time value of Money (TVM) is an important concept in financial management. It can be used to compare different investment options, to solve problems involving loans, leases, savings, etc.

Organizational financial management is concerned with the money matter of the organization and helps to achieve financial objectives. Financial management studies the balance sheet of the company and shows the status of the organization. It helps to decide how the risk in business can be minimized, how to use money effectively, how borrowing can be minimized. However, the some general features of FIS are:

- Calculating several financial ratios
- Storing all the records related to expenses and income, loans and investment
- Storing all the records related with budgets
- Tax calculation
- Interest calculation

How FIS can help organization to make decisions related to finance?

Almost all activities of organization need funds for execution. It is necessary for different functional units of the organization to have knowledge about the availability funds.

Let us consider a scenario of an organization, which produces certain product. Suppose sales and marketing manager is able to forecast demand for its product using Marketing Information System (MKIS). S/he came to know that “n” number of products is in demand by the customers. S/he sends this information to the manufacturing and production department. The manufacturing and production department calculates all the expenses required to produce required number of products. Production
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and manufacturing department needs raw materials, machinery, human resources etc. It has to acquire raw materials from supplier. If the manager of the manufacturing and production department gets information about fund s/he can manage resources accordingly and decide whether the demand can be addressed in time or not. If the information about the fund is available to the manufacturing and production department then only it can decide whether products in the required number can be made in time. If the organization has good FIS, then this situation can be handled quite easily as FIS enables to know the status of funds immediately.

FIS helps organization in all fund related tasks and activities. Organizations have several tasks and activities that are related with funds like:

- Distributing salary of employees
- Producing finished products
- Marketing and advertising products and services etc.

Managers make decision related to

- budget
- investment of fund
- collection or borrowring fund for investment
- lending fund to others

Business value of Financial information System

Financial information system is basically concerned with the money matters of the organizations. It helps to keeps up-to-date information about the transactions; availability of the funds, budget information etc. Therefore, FIS helps firms to make decision related with money:

- purchasing decisions can be made easily because the information about the fund is accessible easily
- decision related to the investment is also easy
- information about the payments like interest, loans, rents, bills are all available
- Improving relationship with suppliers: by paying immediately to suppliers’ confidence of the suppliers can be won. This can be done by having information about the funds. If suppliers can be paid immediately, they may provide better service in future.
- FIS helps to determine whether the firm is getting good return on its investments or not, what is the situation of investments.
- FIS helps to keep track of a firm’s financial assets and fund flows.
- FIS helps of get answers to questions like: What is the current status of financial assets? How much assets available for disbursements, receipts, payroll etc?

The importance of financial management can be summarized as follows:

- It helps economic growth
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- Helps to develop standard of living of all people
- Enables to take better financial decision that helps to reduce poverty, reduce debts and increase savings and investments.

**FIS in different level of management**

FIS plays important role in different level of management hierarchy.

- The components or modules of FIS used in the strategic-level systems helps to establish long-term investment goals of the firm and helps to forecast long-range fund requirements to achieve long-term goals and objectives.
- At the management level, modules of financial information systems help managers manage and control the firm’s financial resources and provide insights to invest firm’s funds in cost effective and efficient manner.
- At the operational systems, financial information system helps to keep track of accounts, the flow of funds into the firm and out of the firm such as paychecks, payments to vendors, securities reports, and receipts.

**Question and Answers:**

*What are the Objectives of Financial Management?*

- The primary goal of most firms is to maximize shareholder’s wealth. This goal not only benefits shareholders, but also helps to ensure that scare resources are allocated and used efficiently.
- FIS helps to measure the effects of managerial actions since the very inception of a company, Economic Value Added (EVA) focuses on managerial effectiveness in a given year. The basic formula for EVA is as follows:
- Firms have to provide managerial compensation for their performances. The managerial performance should be judged on the basis of those things which are under the control of managers, not on the basis of things outside their control. To judge managerial performance, manager’s ability to generate operating income (EBIT, pronounce E-BIT) with the operating assets under their control should be compared.
- Risk analysis: understanding concept of risk and return of investment. In which firm or stock to invest is necessary to understand. Investors like less risk with high return in investment.
- Understanding time value of money. A rupee is more worth than a rupee in distant future. The principles of time value of money analysis have many applications: setting up schedules for paying off loans, decisions about whether to acquire new equipment.