The Finance Industry: An overview of its types, principles, and basic concepts

Finance is an essential part of any business; without proper financial resources, no business can run; the finance processes of having a finance goal can be related to planning, execution, control, and maintenance of financial resources.

Finance is the process of raising funds or capital for any kind of business expenditure which can be in the form of credit, loans, or invested capital to those economic organisations that most need them or can put them to the most productive use. The financial companies that channel funds from savers to users are called financial intermediaries.

They include commercial banks, savings and loan organizations, and such non bank institutions as credit unions, insurance companies, pension funds, investment companies, and finance companies.

What is finance? Let’s find out.

Finance is money management and includes investing, borrowing, lending, budgeting, saving, and forecasting. The study of finance helps us better manage our finances and invest wisely.

It involves the collection, analysis, and interpretation of data regarding the financing of companies and countries. Finance deals with both public (government) and private sectors.

There are two main ways to define finance: either as the study of economic activities (e.g economics) or as the theory of investments, banking system, insurance, credit, taxation, and money supply.

There are also three major components of finance: the economy, the markets, and organizations. These elements interact through the exchange of goods, services, assets, information, and ideas across borders.

There are three main types of finance:

(1) personal,

(2) corporate, and

(3) public/government.

3 essential types of finance

1. Personal Finance

Personal finance is for the person who needs it for any situation or activity. Therefore, related financial strategies depend largely on a person’s earnings, needs, goals, and desires.

Personal finance involves analysing the current financial position of individuals to formulate strategies for future needs within financial limits. Personal finance comes in a range of activities, including using or purchasing financial products such as credit cards, insurance, mortgages, and various types of investments.

Personal finance also involves planning, implementing, and managing financial activities that impact individuals. These activities can include earning five principles of financial transaction management.

The five principles of finance can be summarized as follows:

Consistency: Transactions must be handled in a consistent way. That is, policies and procedures have been established to address similar types of transactions in a routine way.

Timeliness: Transactions must be managed within a period of time consistent with time frames.

Justification: There must be a reason for the transaction that supports the project’s goals to guidelines outlined by federal agencies or a private sponsor.

Documentation: Documentation is important to support the transaction. It must be retained, organized, and complete enough to stand up to an audit.

Certification: Transactions must be approved and carry all the correct authorizing signatures for income, spending money, saving, investing, and borrowing.

2. Corporate Finance

Corporate Finance involves the financial activities related to running a corporation division or department usually set up to oversee those financial activities. Startups may get capital from angel investors or venture capitalists in exchange for a percentage of ownership.

If a company thrives and decides to go public, it will issue shares on a stock exchange through an initial public offering (IPO) to raise funding. In other cases, to budget its capital properly and effectively, a company with growth goals may need to decide which projects to choose from finance and which to put on hold.

3. Public Finance

Public finance includes tax, spending, budgeting, and debt-issuance policies that affect how a government pays for the services it provides to the people. It is a part of the fiscal policy of the country.

The governments help prevent market failure by overseeing the allocation of resources, the distribution of income, and economic stability. Regular funding is secured mostly through taxation which people have to pay. Borrowing from banks, insurance companies, and other nations also help finance government spending.

How did the financial system develop?

The financial system plays an important role in the economy of the country. It enables the financial intermediation process which facilitates the flow of funds between savers and borrowers, thus ensuring that financial resources are allocated efficiently towards promoting economic growth and development.

Financial sector development is about overcoming "funds" incurred in the financial system. This process of reducing the costs of acquiring, enforcing contracts, and making transactions resulted in the emergence of financial contracts, and market intermediaries.

Financial Services – what are they?

Financial services are the services that allow people and businesses to acquire financial goods. An example is the financial service offered by a payment system provider when it accepts and transfers funds between payers and recipients. This includes accounts settled via checks, credit and debit cards, electronic funds transfers etc.

The financial services sector is one of the most important sectors of the economy. It helps drive a nation's economy, providing the free flow of funds, capital and liquidity in the market. The financial services sector comprises various financial firms, including banks, investment houses, finance companies, insurance firms, lenders, accounting services, and real estate brokers.

When this financial sector and a country's economy are strong, consumer confidence and purchasing power grow. When the financial sector fails, it can drag down the country's economy as well.

What Are Financial Activities?

Financial activities are the initiatives and transactions that businesses, governments, and individuals undertake as they seek to complete their personal goals or economic goals. They are activities that involve the inflow or outflow of funds. Examples include buying and selling products or any kind of assets, issuing stocks, initiating loans, and maintaining accounts.

When an organization sells shares and makes debt repayments, it comes into financial activities. Similarly, individuals and governments are involved in financial activities when they take out loans and pay taxes, which further specific monetary objectives.

In layman's terms, what does a financial statement mean?

A financial statement is a report that shows the financial activities of individuals and their financial performance. Lenders and investors use it to check a business's financial health and earnings potential.

Financial statements can cover any period of time, although they're most commonly prepared at the end of a month, a quarter, or a year.

Types of financial statement

There are four basic financial statements in accounting:

1. Balance sheet:

A kind of review of your business's financial condition at a single point in time, it shows what you own which you can consider as your asset vs what you owe as your liabilities.

2. Income statement:

Also called a profit and loss statement, this report shows your business's revenues and personal finance expenses or even your business. Expenses are subtracted from revenues to show your business's profit or loss figure, which is known as net income.

3. Cash flow statement:

This report shows changes to the cash coming in and out of your business over some time. It only records cash and includes amounts received from lenders and investors. A cash flow statement shows whether you can cover short-term expenses like bills, employee payroll, etc.

4. Statement of changes in equity:

A statement of owner's or shareholder's equity, or statement of retained earnings, shows how much money your business keeps (rather than pays out to shareholders or owners). Often, these retained earnings are used to make debt payments or are reinvested in the company.

Important Terms related to finance

The finance terms you show know

1. Accounts Payable
2. Accounts Receivable
3. Asset
4. Balance Sheet
5. Cash Flow
6. Fixed Asset
7. Income Statement
8. Liability
9. Profit & Loss Statement
10. Annual Percentage Rate
11. Collateral
12. Loan-to-Value
13. Debt-Service Coverage Ratio
14. Lien
15. Personal Guarantee
16. Financial Statements
17. Debt Consolidation
18. Gross Profit
19. Statement of Cash Flow

20. Credit Limit

Is Finance an Art or a Science?

Financial planning can incorporate both art and science. As an art, it involves creativity, customisation and an individual's behavioural relationship with funds. And in the scientific part involves mathematical calculations on amounts needed for various goals, and assumptions on performance based on views leading to certain decisions for investment reasons, whether should it be residential or commercial.

Finance Jobs: What's the Pay?

Highest-paying finance jobs

1. Insurance advisor.
2. Financial analyst.
3. Senior accountant.
4. Hedge fund manager.
5. Financial software developer.
6. Private equity associate.
7. Chief financial officer.
8. Chief compliance officer.

Finance vs. Accounting: What's the difference?

The basic difference between finance and accounting is that accounting focuses on the day-to-day flow of money in and out of a company or firm, whereas finance is a broader term for the management of assets and liabilities and the planning of future growth.

Accounting is more about accurate reporting of what has already happened in the past and compliance with laws and standards. Finance is about looking forward planning and growing money or losses.

Summary

Finance represents money management and the process of acquiring needed funds for personal or business use, Finance also encompasses the oversight, creation, and study of money, banking, credit, investments, assets, and liabilities that make up financial systems.

There are four main types of finance: banks, institutions, public accounting, and corporate. Courses within the finance major offer a solid background in many subjects including Financial markets and intermediaries.

FAQ's on Finance:

Must read articles:

– Why Financial Planning Is Necessary For Businesses?

– How women can become financially strong – Gemini Dhar