Good Financial Planning Considering the Exchange Rate Fluctuation

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Abstract

The study discusses planning a management function, the success or failure of achieving predetermined goals depends on planning. The financial planning process rate and political stability in saving money, Two important aspects in the financial planning process (1) Cash planning, which includes the preparation of the company's cash budget. (2) Profit planning, corporate profit planning made in the form of a pro forma financial report. Interest rate, changes in interest rates will affect the value of a country's currency in general against the dollar. Currency trading rates (forex), interest rates, and inflation are all interrelated. An increase in the interest rate causes a country's currency to appreciate. Political Stability the political stability and economic performance of a country can affect the strength of its currency.

Introduction

The planning process is an integral part of the financial manager's job. Because long-term liabilities and share capital funds are withdrawn only at any time and in large amounts, it is important for companies to have an estimate of the total funding requirements for the coming year. So it is very useful to investigate the forecast of all the funding requirements of the company.

Planning is a management function, the success or failure of achieving predetermined goals depends on planning. Financial planning that is well made and in line with the predetermined strategy will be able to direct the company in achieving its goals effectively and efficiently (Cowley & Domb 1997; Allison & Kaye 2011). Financial planning includes financial forecasting and financial control activities. Financial forecasts are made to forecast the need for additional funds needed by the company (Shim, 2000; Makridakis et al., 2009; Kao & Liu, 2004). By knowing how much funds the company will need for future operations, financial management can think of the best way to fund these needs and ultimately become the basis for effective financial control.

The first step in the implementation of financial planning activities is sales forecasting, which is a forecast of the units and the value of a company's sales money. If the financial planning is prepared correctly, this information will be useful for the management of the company in the context of developing its business. If the financial planning is carried out properly, the management of the company will be able to make maximum efforts in order to achieve the stated goals.

Steps for Making a Financial Planning

Financial planning is an important aspect of the company's operations and income sources because it provides directions that direct, coordinate and control the company's activities to achieve its goals (Langenwalter, 2020; Jacobs et al., 2011). Two important aspects in the financial planning process (1) Cash planning, which includes the preparation of the company's cash budget. (2) Profit planning, corporate profit planning made in the form of a

pro forma financial report. Financial planning has an important meaning for several reasons, namely (1) Financial planning helps management know the impact of various strategies on the company's financial position, company cash flow, revenue, and the level of external funding needs, (2) By formulating financial planning, company management is in place. is in a better position to react to any changes in the market, such as sales that are lower than projected sales, or unforeseen problems such as a reduction in the supply of raw materials. By designing a financial plan, managers become more familiar with the slightest changes in the company's cash flow and the level of funds required to change sales levels or other factors.

Creating a financial plan helps managers understand the inherent trade-offs between investment plans and funding plans. For example, by designing a financial plan, the financial manager will be better able to understand the trade-off between having sufficient supply to satisfy consumer demand and the financial need to invest in inventory.

The steps in making financial planning include (1) The first step in financial planning is to formulate (formulate) long-term goals, which can be a goal to grow into a national level company or international. (2) The second step is a formulation of corporate financial politics. This formulation will serve as a guideline for all business activities, and in terms of financial planning, this is indispensable. Therefore, in this case, it is necessary to have forecasting in order to estimate changes in the factors contained in the formulation of the financial plan of the business. (3) The third step is the establishment of procedures. Intended to create good coordination of each interconnected activity, so that it does not collide, throwing responsibilities off of each other. (4) The final step is to seek flexibility. The current state of the economy is in a dynamic state and is always increasing. Therefore, management must always prepare for flexibility (flexibility) in plans, especially short-term plans. Budgeted variables are one of the right forms to apply.

The Financial Planning Process

Sales Forecast

Sales forecast (sales forecast) generally begins with a review of sales five or ten years ago, which is usually expressed in the form of a sales growth graph for the last 5 years (Lawrence et al., 2006). Sales forecasts are made by trying to measure the volume of sales in the future. These measurements can be done quantitatively and qualitatively. Qualitative measurements usually use statistical and mathematical methods, while qualitative measurements usually use judgment / income.

Forecasting financial statements, the steps are (1) Forecasting the income statement. The income statement for the coming year is forecast to obtain an estimate of the reported profit and the amount of retained earnings that the company will generate during the year. This requires assumptions about the risk of operating costs, tax rates, interest expense and dividend payout ratios. In the simplest case, the assumption is made that costs will increase at the same rate as sales increase. In more complex situations, certain costs will be forecast separately. However, the main purpose of this forecast is to determine some amount of profit the company will receive and the year to invest back in the forecast year. (2) Forecasting the balance sheet If sales are increased, then the activity must grow. Since the company operates at full capacity, each activity item must be added if higher sales are to be achieved. The more cash is needed for the transaction, higher sales will result in larger accounts receivable, additional inventory must be stored, and new plant and equipment must be added. (3) Obtain and add as needed. Additional required funds (AFN) are funds that a company must obtain externally through loans or by selling new common or preferred stock.

How to Save

Saving is setting aside some of the money you have to save. Saving is one way of managing finances to achieve your desires (Langley, 2008; Gerhard et al., (2018). According to KBBI Saving itself has 1 meaning. Saving comes from the basic word, namely tube. Saving has meaning into a class or class of verbs (verbs) so that saving can express an action, existence, experience, or other dynamic meaning. There are various ways to save for future needs.

Saving at Home

You can do saving easily, one of which is saving at home because you can set aside your money at will and at any time, but if you save at home there will be no guarantee that you will get, for example, sometimes we are tempted to take the money that is in our savings even though it is a little. And only for a moment's needs, and in the end you will fail in saving, for that exercise patience and effort is required in saving.

Saving at the Bank

The safest saving that you can do is by saving in a bank, be it a state-owned bank or a private-owned bank. How to deposit (save) and withdraw money in savings at the bank is also very easy and fast. We only need or just come to the bank with our savings book, then fill out the deposit (saving) or withdrawal (taking) form.

The objectives of saving are (1) Save on expenses so that life is not wasteful (2) Manage finances properly (3) Planning and preparing for the future (4) Successful development.

The benefits of saving, among others, are as follows (1) Saving will teach life to be more efficient and not excessive in spending (money) in various things that should not be necessary. (2) Train you to be able to live in a simpler or simpler way. (3) By saving too, you will have a reserve of money in case of an urgent and very sudden situation. (4) Saving is also a long-term investment that will be very beneficial for the future. (5) By saving you can afford to buy something you want without having to think about where the money is from or even owe someone. (6) Saving can also teach you to continue to be more patient with difficulty to achieve what you want through a long process. (7) Meeting the costs of all kinds of existing needs (8) Meeting the Need for a Better Future.

Time Value of Money in Saving

The time value of money (the time value of money) in the future involves investing the funds into an investment, both short-term and long-term investments. Based on the effect of time, the value of money will change in the future if the amount is the same, this is due to economic developments in which people increasingly know the meaning of economic development and how it affects prices in general.

Therefore, the meaning of the value of money against time is a concept which states that the present value of money will be more valuable than the future value of money or a concept that refers to differences in the value of money due to differences in time.

An investment made by an individual or company in relation to the current expenditure of funds/money; that is, when the investment is funded in the hope that it can provide future results in a relatively long time. Therefore, understanding the time value of money is very important. Currency value which has a nominal value of \$ the current 1,000.00 (now) has a value that is higher or more valuable when compared to the value of \$ 1,000.00 in the future.

All people who know money have understood conditions like this that with the same nominal value, the present value of money is higher than in the future. One of the causes of the decline

in the value of money is the inflation factor, meaning that the higher the inflation rate, the weaker the purchasing power of the money.

There are various factors that can affect the value of a country's currency, including:

Inflation

Surely everyone likes a salary increase, but not for an increase in the price of goods and service rates, which are hated so much. A country with a lower inflation rate than other countries will appreciate the value of its currency. Prices of goods and services increase at a slower rate, when inflation is low. A country with a low inflation rate shows a rising currency value. Meanwhile, countries with higher inflation usually see a depreciation of the currency and are usually accompanied by higher interest rates.

Interest Rate

Changes in interest rates will affect the value of a country's currency in general against the dollar. Currency trading rates (forex), interest rates, and inflation are all interrelated. An increase in the interest rate causes a country's currency to appreciate. This is because higher interest rates impose higher rates on lenders, thereby attracting foreign capital excessively, leading to an increase in the exchange rate of the currency.

Political Stability

The political stability and economic performance of a country can affect the strength of its currency. A country with a low risk of political turmoil is more attractive to foreign investors. The increase in foreign capital, in turn, leads to an appreciation in the value of the domestic currency. A country with sound financial and trade policies leaves no room for uncertainty in the value of its currency. Conversely, a country with an unstable political situation allows the depreciation of its currency exchange rate. The following are some examples of applications related to the concept of the time value of Bank Savings and Loans.

The concept of the time value of money is required by financial managers in making decisions when investing in an asset and making decisions when determining the source of loan funds to be selected. A certain amount of money received in the future. If it is at current value, the amount of money must be discounted at a certain interest rate (discount factor). One of the efforts to control so that the value of money does not fall too sharply is the existence of a regulation on interest rates. This means that if the inflation rate is 10% and the interest rate for savings is 10%, the current value of money will be the same as next year and even if there is a difference it is not too significant. This applies if the money is saved, but if it is not saved, of course the value of money will decrease by at least 10%. From the description above, it is clear that the time value of money is very meaningful for economic development, including for investors who will carry out both short-term and long-term investment activities. The limitation is that it will cause people to only save their money if the bank interest rate is high, because they think that if the bank interest is high, the money they will receive in the future will also be high. Time value of money does not take into account the inflation rate. In investing activities, we are always faced with a choice of various prospects for future investment returns. For that we need to know future value and present value.

Future Value

Future value is the value given to investments made now for the future. Future Value refers to the value of money that will be received in the future from the amount of capital that is now invested at a certain discount rate (interest).

Present Value

The present value is used to determine the present value of an investment from a future value or more simply to calculate the present cash value of an amount of money to be received in a period in the future.

Conclusion

Financial planning is very important for every company, to prepare a financial plan for how much funds to spend, especially the management if financial planning is presented properly and correctly, of course, financial forecasting for the coming period will be carried out well too. Financial planning is an important aspect of the company's operations and income sources because it provides directions that direct, coordinate and control the company's activities to achieve its goals.

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