

Sometimes, a longer term view will cause problems in the short term, yet if a company continually focuses on the short term only, it might not survive very long.

In this week's Discussion, you will think about a time in your professional experience when a decision was made that seemed to benefit a specific manager or small group of managers and not the overall corporation. If you do not have professional experience directly related to this topic, you can research a situation in the news where this theme is demonstrated. You will consider the outcomes of such an imbalance between manager and stockholder interests and research how to avoid such a situation.

Financial Acumen

Financial acumen is most commonly defined as an understanding of what financial data tells you and how to act on that data. Too often, businesses, particularly small ones, are run on instinct and intuition. It is essential to go beyond instinct and intuition and understand how financial data really drives your enterprise. All employees in the organization should be given training or at least some knowledge on key financial data that tends to drive organizational performance to help managers to make better decisions and assist employees with increasing efficiency and effectiveness of operations. Wise (2013) shows how entrepreneurs who produced financial statements more frequently had a higher probability of loan repayment and a lower probability of venture failure.

In this week's Discussion: Shared Practice, you will view the video, "Financial Management: Creating Financial Acumen Within Your Company." Then, you will tell your colleagues about your personal experiences in one or two situations where financial acumen was either not supported as an organization hallmark or was actually built into the company's culture. The dialogue is designed to help you as a learning community to understand organizations' cultural features that enhance or diminish financial acumen. Hopefully, you will gain new ideas and thoughts on how to improve your organization's culture for promoting financial acumen through this sharing of practices—both good and bad. Please note that this discussion has slightly different due dates than what is typical for this program. Be mindful of this as you post and respond in this discussion. Your initial post is due on **Day 7 of this week**, and your response is not due until **Day 3 of Week 2**.

Time Value of Money

Suppose your best friend owed you \$1,000. Would you rather have this money repaid to you right away, in one payment, or spread out over two years in eight payments—one every three months? Would it make a difference either way? According to a concept that economists call the *time value of money*, you would be better off getting your money right away, in one payment. You could invest this money and earn interest on it or you could use this money to pay off all or part of a loan or for some other worthy purpose. The time value of money refers to the fact that a dollar in hand today is worth more than a dollar provided at some future time.

But how can that be? A dollar is a dollar, isn't it? Yes, but a dollar in hand today can be invested in a CD or other safe instrument and that dollar would grow in value over time. The value of money is related to time.

The time value of money is related to another concept called *opportunity cost*. The cost of any financial decision must be evaluated against the cost of the best forgone opportunity. For example, if you pay \$80 for a concert ticket, your cost of going to the concert is not just the ticket price, but also the time value and cost of what else you might have enjoyed doing instead of going to the concert. Applying this concept to the \$1,000 owed to you, you can see that getting the money paid over time will generate opportunity cost. By getting the money back over 2 years, you lose the interest on your investment or any other use for the initial \$1,000 that would increase its value. The trade-off between money now (present value) and money later (future value) depends on such factors as interest rates, inflation, the state of the economy, and types of investments made.

For this week's Assignment, you will think of four examples in your workplace or from your personal life, or a combination of both, that demonstrate the following four cases:

- Present Value (PV) of a lump sum
- Future Value (FV) of a lump sum
- Present Value (PV) of an annuity
- Future Value (FV) of an annuity

You will explain your scenarios, including why they are relevant to your organization and/or personal life, provide a rationale for interest or discount rates used in your scenarios, and furnish a conclusions section that documents what you learned from this exercise.

Your paper should be at least 2 pages, not including Excel output. Use appendices for showing your Excel output, and be sure to use citations and related reference materials as appropriate. Be sure to go over thoroughly the Excel functions needed that are covered throughout Chapter 5. You can download helpful templates from the text's student companion site at:

<http://coursemate.cengage.com/CPReader/View/9781133629160/default.aspx?eISBN=9781133629160> - home

You have now been introduced to a few important financial management concepts. As you delve into Week 1, be sure to get an early start on the readings. If there is a word, phrase, or concept that you do not understand, be sure to ask your Instructor what it means.