

Introduction to Financial Management

Prepared by: **Janice Maria Jose**
Department of Commerce
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Introduction to Financial Management



*Money itself is neither created nor destroyed,
its simply transferred from one perception to another.*

What is Finance???

- Finance is the art & science of managing 'MONEY'.
- Finance is the life blood of Business (funds).
- “Finance v/s Money”

Functions of finance

- ◉ Investment decisions
- ◉ Financing decision
- ◉ Dividend decisions
- ◉ Liquidity decisions

Investment decision/ function

- Investment decisions relates to the selection of assets (**fixed & current assets**) in which funds will be invested by a firm.
- Invst in fixed & long term assets & projects is called **capital budgeting** – volume of invst , risk & returns , cost of capital.
- Invst & mgt of current assets is called **working capital mgt** –mgt of cash, inventory & receivables, profitabilty & liquidity.

Financing Decision / Function

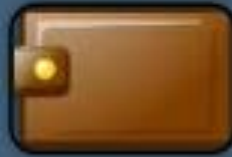
- Financing decisions are concerned with the Capital structure decisions of a firm (proportion of debt & equity).
- Creating proper mix between debt & equity – optimum capital structure.
- Tradeoff between risk & return.

Dividend policy decisions / functions

- Deciding the Dividend payout ratio considering the benefit of shareholders & firm both.
- Dividend decision should be analysed in relation to the financing decisions of the firm.

Liquidity decisions

- It is concerned with the management of current assets
- Working capital management
- Decisions regarding how much funds are required to meet day-to-day financial requirements.



Meaning: Financial Management

- Financial Management is an operational activity, which is accountable for the effective utilization of funds necessary for operations. One of the primary objectives of financial management is to maintain enough money to meet the necessary current and capital expenditure, apart from maximizing profits.

Financial management

- ◉ Management of finance
- ◉ Art of raising and spending money.
- ◉ Process of managing the funds of an organisation.



Financial Management

- According to Ezra Solamn “Financial management is concerned with the efficient use of an important economic resources viz capital funds”.
- Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise.

Nature of Financial Management

- Financial management is mainly concerned with the proper management of funds.
- The financial manager must see that the funds are procured in a manner that there is risk, cost and control considerations are properly balanced in a given situation and there is optimum utilization of funds.

Importance of FM

- ◉ Successful promotion
- ◉ Smooth running of business
- ◉ Co-ordination of functional activities
- ◉ Decision making
- ◉ Determinant of business success
- ◉ Solution of financial problem

Scope of Financial Management

- Scope covers both acquisition & utilisation of funds – efficient and wise allocation of funds to various uses.
- Financial mgt involves providing solutions for major financial operations of a firm
 - Investment decisions
 - Financing decisions
 - Dividend policy decisions

Scope of Financial Management

- Financial management has a wide scope. According to **Dr. S. C. Saxena**, the scope of financial management includes the following five 'A's.
- **Anticipation** : Financial management estimates the financial needs of the company. That is, it finds out how much finance is required by the company.
- **Acquisition** : It collects finance for the company from different sources.
- **Allocation** : It uses this collected finance to purchase fixed and current assets for the company.
- **Appropriation** : It divides the company's profits among the shareholders, debenture holders, etc. It keeps a part of the profits as reserves.
- **Assessment** : It also controls all the financial activities of the company. Financial management is the most important functional area of management.

Scope

- The main objective of FM is to arrange sufficient finance for meeting short term and long term needs.
- Estimating financial requirements
- Deciding capital structure
- Selecting a source of finance
- Selecting a pattern of investment
- Proper cash management
- Implementing financial controls
- Proper use of surpluses

Objectives of financial Management

- a. Financial objectives
- b. Non-Financial Objectives



Financial objectives or Financial Goals

- Profit maximization (profit after tax)
- Maximizing EPS(earnings Per Share)
- Wealth Maximization.



Profit maximisation

- ① The main objective of FM is to safeguard the interest of the persons who are directly or indirectly connected with the company.
- ② Profit is the measure of efficiency of business enterprise.
- ③ The firm must earn profit to cover its cost and provide fund or future.
- ④ The accumulated profit enable a firm to face risk in fall in price, competition from other units, adverse govt. policies.

Advantages

- ◉ Measures efficiency of business
- ◉ Essential for survival
- ◉ Social welfare is achieved
- ◉ Max return to shareholders
- ◉ Sufficient funds for future expansion
- ◉ Invest savings in securities

Criticism

- Future is uncertain
- Exploitation of workers and consumers
- Attracts cut throat competition
- No consideration for the welfare of society
- Corrupt practices