



INTRODUCTION TO FINANCIAL MANAGEMENT


UNIT-1

MEANING OF FINANCIAL MANAGEMENT

- Finance may be defined as the art and science of managing money.
- It includes financial service and financial instruments.
- Finance function is the procurement of funds and their effective utilization in business concerns.

DEFINITION OF FINANCIAL MANAGEMENT

- The term financial management has been defined by Solomon, **“It is concerned with the efficient use of an important economic resource namely, capital funds”**. The most popular and acceptable definition of financial management as given by S.C. Kuchal is that **“Financial Management deals with procurement of funds and their effective utilization in the business”**.

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- Weston and Brigham : Financial management “is an area of financial decision-making, harmonizing individual motives and enterprise goals”.

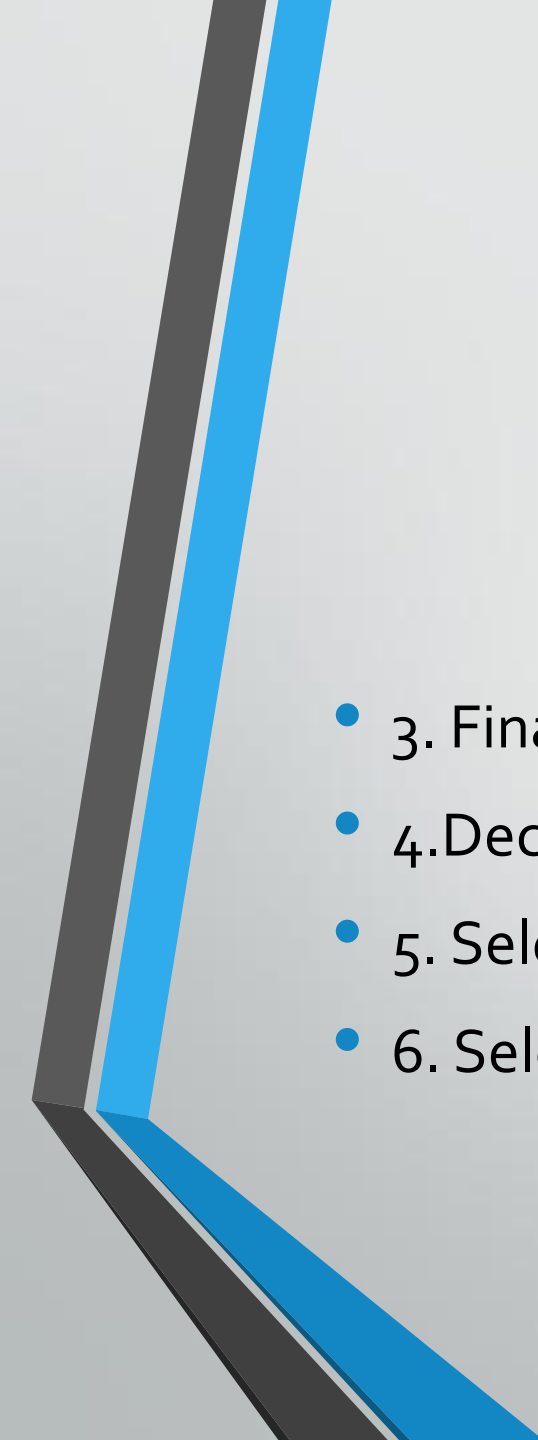


FINANCIAL MANAGEMENT IS CONCERNED WITH

- Financing Decisions
- Investment Decisions
- Dividend decisions

SCOPE OF FINANCIAL MANAGEMENT

- **1. Financial Management and Economics:** Economic concepts like micro and macroeconomics are directly applied with the financial management approaches. Investment decisions, micro and macro environmental factors are closely associated with the functions of financial manager.
- **2. Financial Management and Accounting:** Accounting records includes the financial information of the business concern. Hence, we can easily understand the relationship between the financial management and accounting.

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- 3. Financial Planning
 - 4. Deciding the Capital Structure
 - 5. Selection of source of Finance
 - 6. Selection of pattern of investment.

OBJECTIVES OF FINANCIAL MANAGEMENT

- **1. Profit maximization 2. Wealth maximization.**
- Profit Maximization
- Main aim of any kind of economic activity is earning profit. A business concern is also functioning mainly for the purpose of earning profit. Profit is the measuring techniques to understand the business efficiency of the concern.
- **Profit maximization consists of the following important features.**
- 1. Profit maximization is also called as cashing per share maximization. It leads to maximize the business operation for profit maximization.
- 2. Ultimate aim of the business concern is earning profit, hence, it considers all the possible ways to increase the profitability of the concern.

Wealth Maximization

- Wealth maximization is one of the modern approaches, which involves latest innovations and improvements in the field of the business concern. The term **wealth means shareholder wealth or the wealth of the persons those who are involved in the business concern.** Wealth maximization is also known as **value maximization or net present worth maximization.** This objective is an universally accepted concept in the field of business.

FUNCTIONS OF FINANCE MANAGER

- **1. Forecasting Financial Requirements**
- It is the primary function of the Finance Manager. He is responsible to estimate the financial requirement of the business concern. He should estimate, how much finances required to acquire fixed assets and forecast the amount needed to meet the working capital requirements in future.
- **2. Acquiring Necessary Capital**
- After deciding the financial requirement, the finance manager should concentrate how the finance is mobilized and where it will be available. It is also highly critical in nature.



- **3. Investment Decision**

- The finance manager must carefully select best investment alternatives and consider the reasonable and stable return from the investment.

- **4. Cash Management**

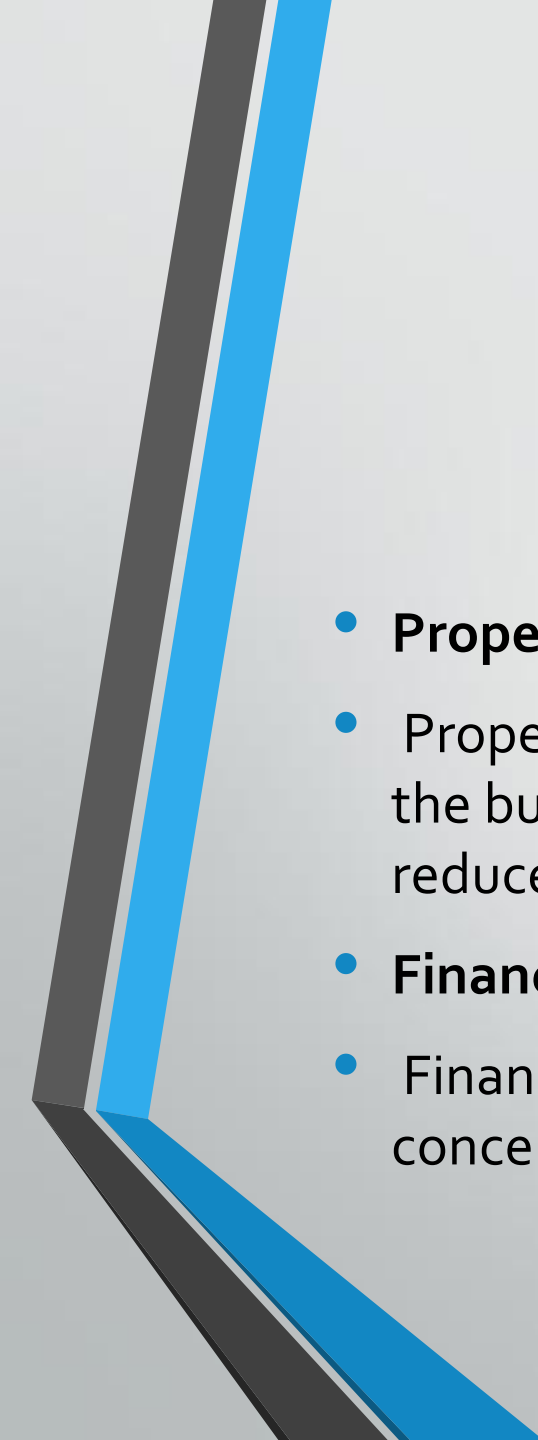
- Present days cash management plays a major role in the area of finance because proper cash management is not only essential for effective utilization of cash but it also helps to meet the short-term liquidity position of the concern.


- **5. Interrelation with Other Departments**

- Finance manager deals with various functional departments such as marketing, production, personnel, system, research, development, etc.

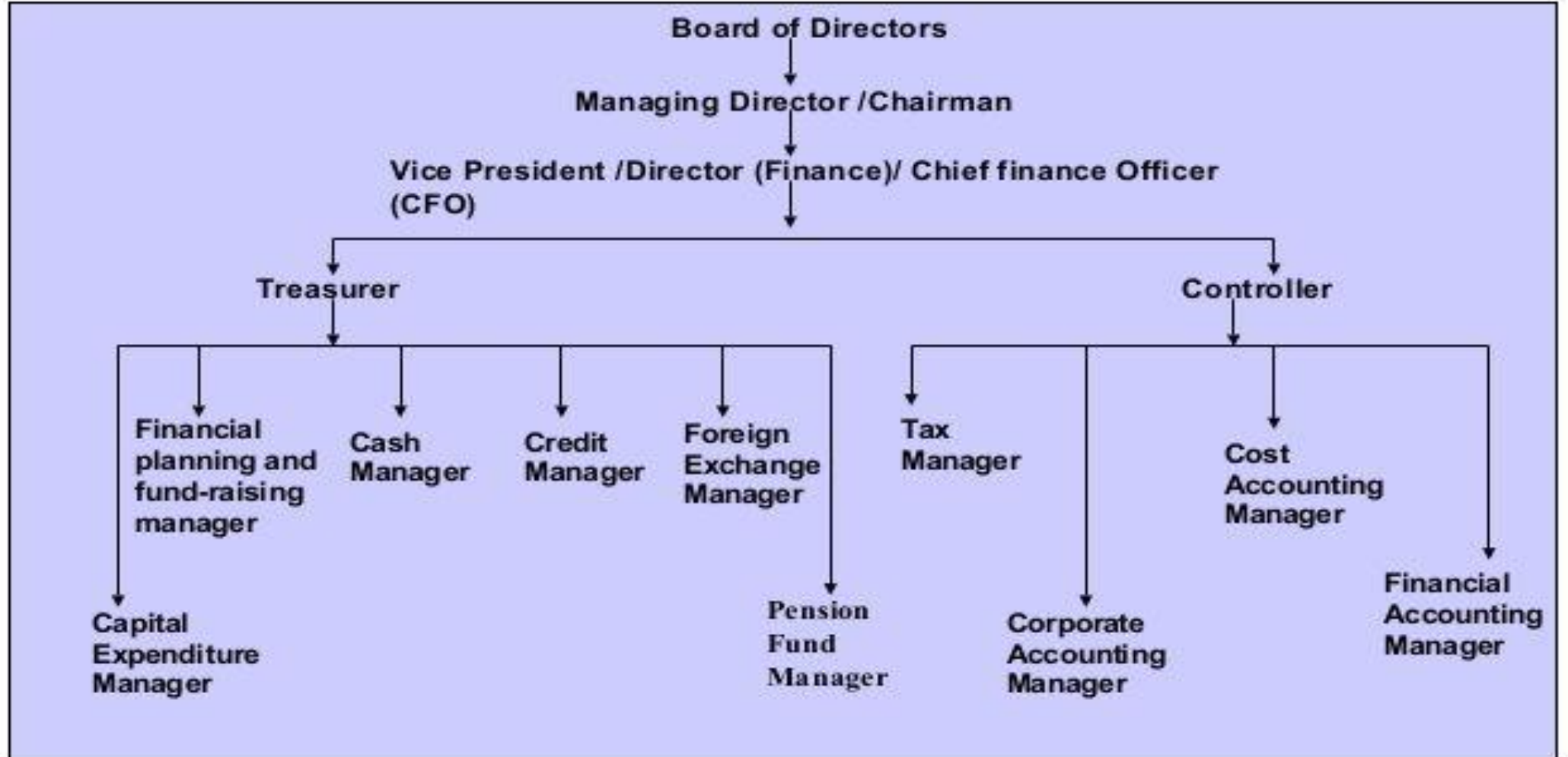
IMPORTANCE OF FINANCIAL MANAGEMENT

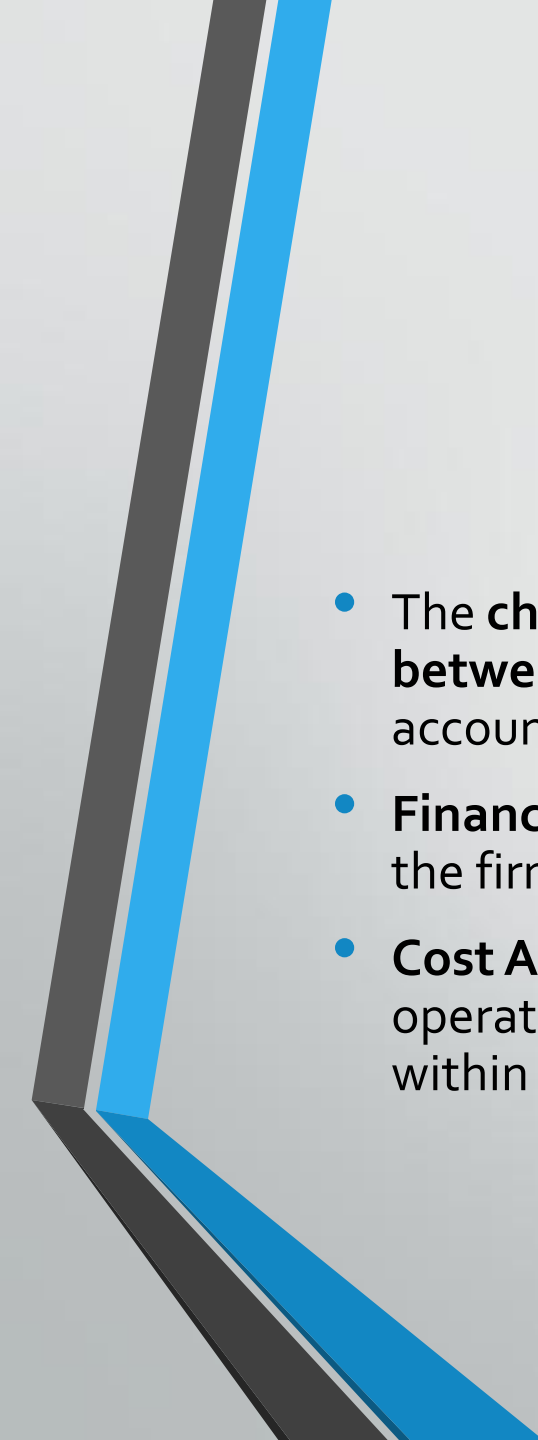
- **Financial Planning**
- Financial management helps to determine the financial requirement of the business concern and leads to take financial planning of the concern. Financial planning is an important part of the business concern, which helps to promotion of an enterprise.
- **Acquisition of Funds**
- Financial management involves the acquisition of required finance to the business concern. Acquiring needed funds play a major part of the financial management, which involve possible source of finance at minimum cost.

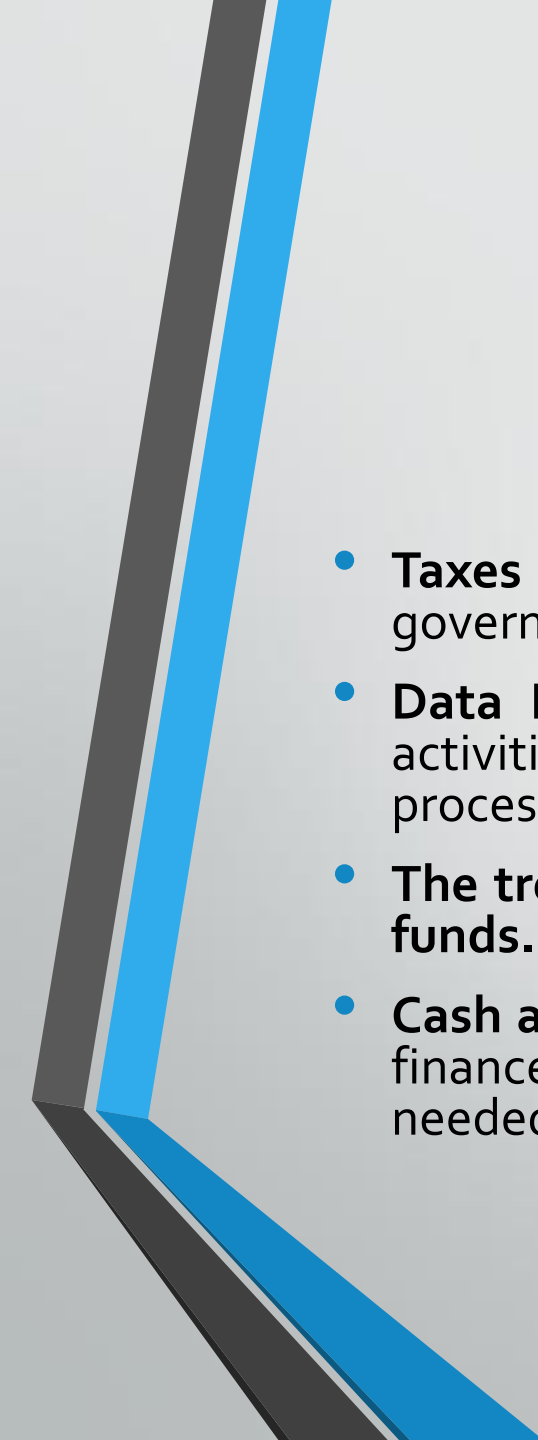
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- **Proper Use of Funds**
 - Proper use and allocation of funds leads to improve the operational efficiency of the business concern. When the finance manager uses the funds properly, they can reduce the cost of capital and increase the value of the firm.
 - **Financial Decision**
 - Financial management helps to take sound financial decision in the business concern. Financial decision will affect the entire business operation of the concern.


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- **Improve Profitability**
 - Profitability of the concern purely depends on the effectiveness and proper utilization of funds by the business concern.
 - **Increase the Value of the Firm**
 - Financial management is very important in the field of increasing the wealth of the investors and the business concern. Ultimate aim of any business concern will achieve the maximum profit and higher profitability leads to maximize the wealth of the investors as well as the nation.
 - **Promoting Savings**
 - Savings are possible only when the business concern earns higher profitability and maximizing wealth.

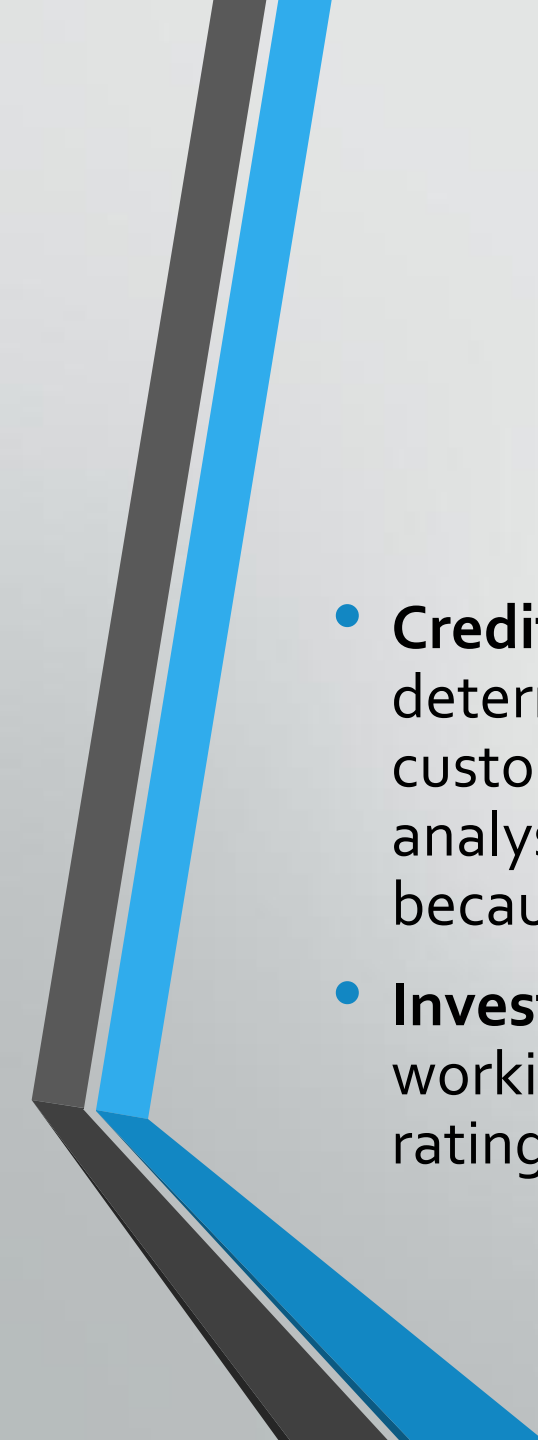
ORGANISATION OF FINANCE FUNCTION

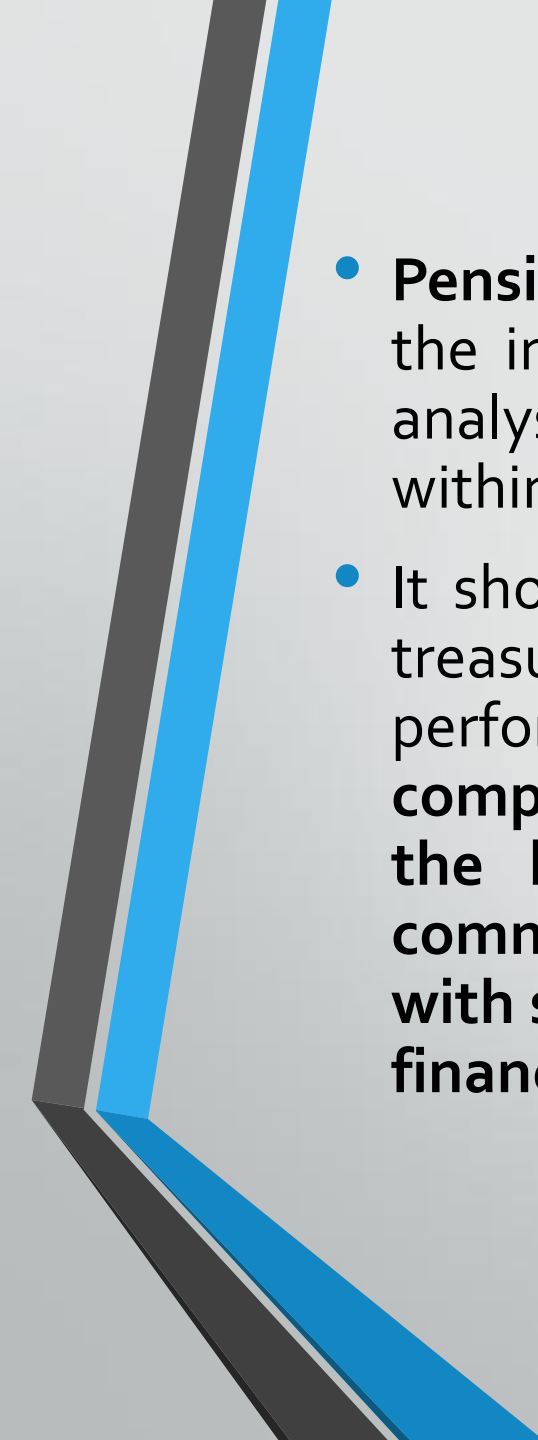


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- The **chief financial officer often distributes the financial management responsibilities between the *controller* and the *treasurer***. The controller normally has responsibility for all accounting-related activities. These include such functions as:
 - **Financial Accounting** This function involves the preparation of the financial statements for the firm, such as the balance sheet, income statement, and the statement of cash flows.
 - **Cost Accounting** This department often has responsibility for preparing the firm's operating budgets and monitoring the performance of the departments and divisions within the firm.

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- **Taxes** This unit prepares the reports that the company must file with the various government (local, state, and federal) agencies.
 - **Data Processing** Given its responsibilities involving corporate accounting and payroll activities, the controller may also have management responsibility for the company's data - processing operations.
 - **The treasurer is normally concerned with the acquisition, custody, and expenditure of funds. These duties often include:**
 - **Cash and Marketable Securities Management** This group monitors the firm's short -term finances forecasting its cash needs, obtaining funds from bankers and other sources when needed, and investing any excess funds in short-term interest -earning securities.

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- **Capital Budgeting Analysis** This department is responsible for analyzing capital expenditures that is, the purchase of long -term assets, such as new facilities and equipment.
 - **Financial Planning** This department is responsible for analyzing the alternative sources of long-term funds, such as the issuance of bonds or common stock, that the firm will need to maintain and expand its operations.

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- **Credit Analysis** Most companies have a department that is responsible for determining the amount of credit that the firm will extend to each of its customers. Although this group is responsible for performing financial analysis, it may sometimes be located in the marketing area of the firm because of its close relationship to sales.
 - **Investor Relations** Many large companies have a unit responsible for working with institutional investors (for example, mutual funds), bond rating agencies, stockholders, and the general financial community.

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- **Pension Fund Management** The treasurer may also have responsibility for the investment of employee pension fund contributions. The investment analysis and portfolio management functions may be performed either within the firm or through outside investment advisors.
 - It should be emphasized that the specific functions of the controller and treasurer shown in Figure are illustrative only and that the actual functions performed vary from company to company. **For example, in some companies, the treasurer may have responsibility for tax matters. Also, the board of directors of the company may establish a finance committee, consisting of a number of directors and officers of the firm with substantial financial expertise, to make recommendations on broad financial policy issues.**