

B. Com. Part: - III

Financial Management

UNIT - I

Financial Management

Nature & Scope of Financial Mgt.

* Financial management (mgt.) refers to that part of the management activity which deals with planning and controlling of business financial resources. The main course of action is to maximise the shareholders wealth. Financial management is also known as corporation finance or business finance.

* Importance of financial management: Finance is the life blood and nerve centre of a business. Finance is very essential ~~essential~~ to smooth running of the business. If it is not properly managed, firms can't survive in long run. The success and growth of firms depends upon optimal management of its finance. Every managers aims to utilise its funds in a best possible way to maximise the wealth of shareholders. Financial management is indispensable to any organisation as it helps in —

- (i) financial planning & successful promotion of an enterprise;
- (ii) acquisition of fund as and when required at the minimum possible cost;
- (iii) proper use and allocation of fund;
- (iv) taking sound financial decisions;
- (v) improving profitability;
- (vi) increasing the wealth of shareholders.

(vii) promoting and mobilising individual and corporate savings

* Aims of financial management
 Followings are the primary aims of finance function:

- (i) Acquisition of sufficient funds
- (ii) Proper utilisation of funds
- (iii) Increasing profitability and
- (iv) Maximising firm's value

* Scope of financial management

1. Estimation of financial requirements.
2. Deciding capital structure
3. Selecting source of finance
4. Proper cash management

5. Implementing financial control,
6. Selecting pattern of investment
7. Proper use of surpluses.

* Objectives of financial management

✓ [A] Profit Maximisation

[B] Wealth Maximisation

Although profit maximisation and wealth maximisation are objectives of finance function but wealth maximisation is appropriate objective.

* Financial Decisions:

1. Investment Decisions —

The decision which is related with the total management of assets to be held by the firms. Investment decision may be long-term & short-term. Long-term investment decision is referred to as the capital budgeting and the short-term investment decision as working capital management.

2. Financing Decisions —

This decision involves procurement and application of funds in

best possible way to maximise the wealth of shareholders considering appropriate capital mix.

3. Dividend decisions

The reward of investment made by shareholders ~~and~~ is dividend. This decision is concerned with the quantum of ~~distributed~~ profits to be distributed among shareholders. The decision has to be taken whether all the profits are to be distributed, to retain all the profits in the business or to keep a part of profits in the business and distribute others among shareholders.

* Functional Areas of Financial Mgt.:

1. Determining financial needs.
2. Selecting the sources of funds.
3. Financial Analysis & Interpretation.
4. Cost-Volume-Profit Analysis.
5. Capital Budgeting
6. Working Capital Management.
7. Profit Planning & Control
8. Dividend Policy.

Thank you.