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SUBJECT. : FINANCIAL MANAGEMENT

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UNIT – I

Financial Management: Meaning, Nature, scope and objectives – Role and functions of financial management – Financial decisions – Relationship between risk and return – sources of finance – short-term and Long-term finance.

UNIT - 1

FINANCIAL MANAGEMENT :

Financial management, is that branch of general management, which has grown to provide specialized and efficient financial services to the whole enterprise; involving, in particular, the timely supplies of requisite finances and ensuring their most effective utilization-contributing to the most effective and efficient attainment of the common objectives of the enterprise.

DEFINITION OF FINANCIAL MANAGEMENT

"Financial management is an area of financial decision-making harmonizing individual motives and enterprise goals." —Weston and Brigham

Financial management may be defined as the area or function in an organization which is concerned with profitability, expenses, cash and credit, so that the "organization may have the means to carry out its objective as satisfactorily as possible the latter often defined as maximizing the value of the firm for stockholders".

SCOPE OF FINANCIAL MANAGEMENT

1.Investment decision

2.Financing decision

3.Dividend decision.

OBJECTIVES OF FINANCIAL MANAGEMENT

Main objective

Profit maximisation.

Wealth maximisation.

Other objective

Optimum funds utilisation.

Ensure safety on investment.

Sound capital structure.

ROLE AND FUNCTIONS OF FINANCIAL MANAGEMENT

1. Estimation of capital requirements.
2. Determination of capital composition.
3. Choice of source of funds.
   - Issue of shares and debentures.
   - Loans to be taken from banks/financial institutions.
   - Public deposits in form of bonds.
4. Investment of funds.
5. Disposal of surplus.
6. Management of cash.
7. Financial controls.

FINANCIAL DECISION

Financial decision is a process which is responsible for all the decisions related with liabilities and stockholder's equity of the company as well as the issuance of bonds.

To make a good Financial Planning Process you have to follow these six steps:

1.Determine current financial situation

2.Establish financial goals

3.Identify different courses of action

4.Evaluate alternatives

5.Elaborate and implement the actions of the financial plan

6.Review and revise the financial plan.

RELATIONSHIP BETWEEN RISK AND RETURN

Relationship between risk and return means to study the effect of bothelements on each other. We measures the effect of increase or decrease risk on return of investment. Following is the main type of relationship of risk and return.

Risk-Return relationship model

1. Direct Relationship between Risk and Return

   (A) High Risk - High Return

   (B) Low Risk - Low Return

2. Negative Relationship between Risk and Return

   (A) High Risk Low Return

   (B) Low Risk High Return

SOURCE OF FINANCE

Sources of finance for business are equity, debt, debentures, retained earnings, term loans, working capital loans, letter of credit, euro issue, venture funding etc. These sources of funds are used in different situations. They are classified based on time period, ownership and control, and their source of generation. It is ideal to evaluate each source of capital before opting for it.

Long term finance

1.Share Capital or Equity Shares

2.Preference Capital or Preference Shares

3.Retained Earnings or Internal Accruals

4.Debenture / Bonds

5.Term Loans from Financial Institutes, Government, and Commercial Banks

6.Venture Funding

Short term finance

1.Trade Credit

2.Factoring Services

3.Bill Discounting

4.Advances received from customers

5.Short Term Loans like Working Capital Loans from Commercial Banks

6.Fixed Deposits

7.Receivables and Payables.

BOOK REFFERED : 1.Financial Management by S. N. Maheshwari.

2. Management Accounting by R. K. Sharma and Shashi k Gupta