



# Financial Management Decisions

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# *Financial Management*

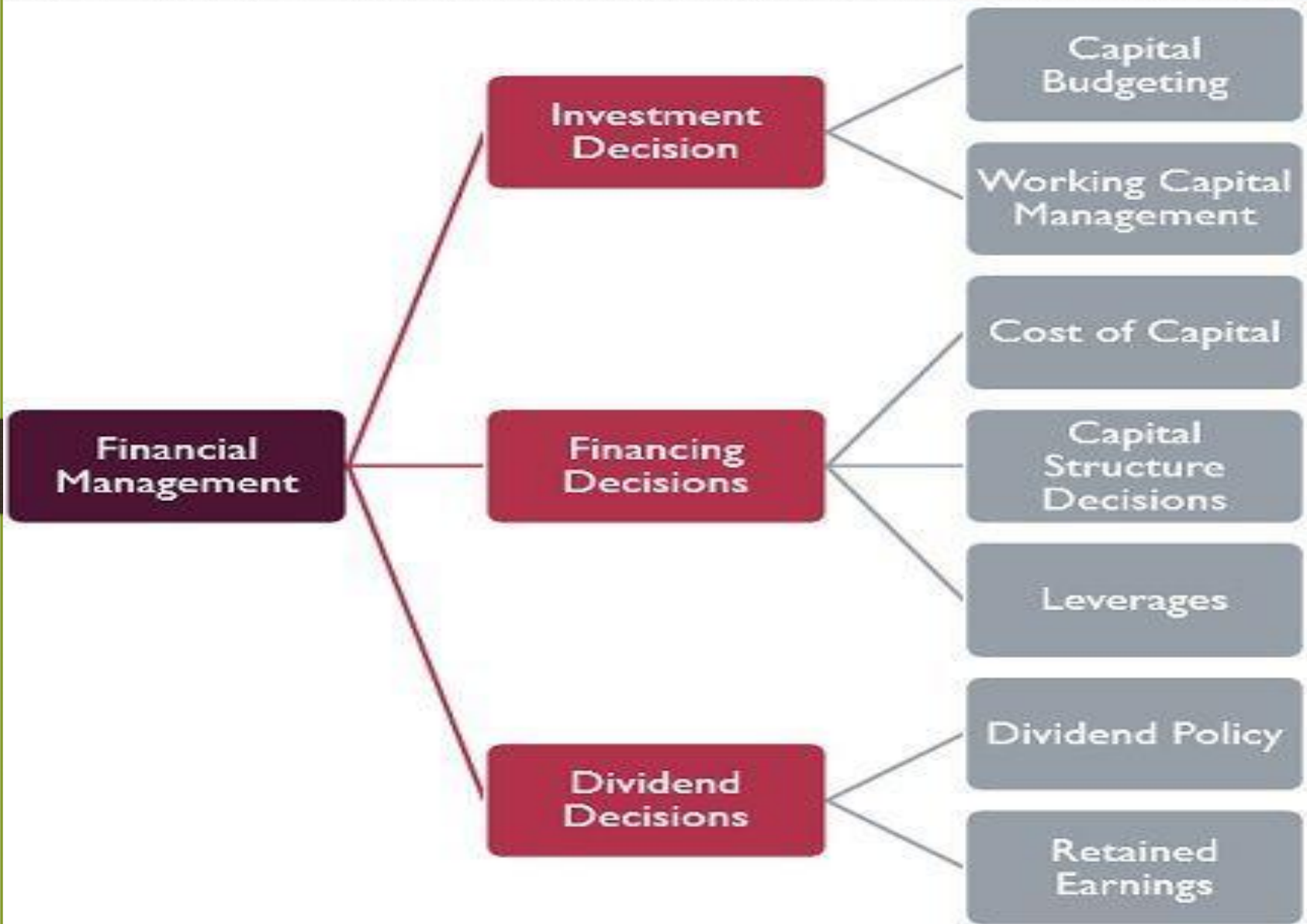
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- *The planning, organizing, directing & controlling of the financial activities of an enterprise.*
- *Refers to the effective and efficient management of funds to achieve goals.*
- *Deals with procurement, allocation & control of financial resources.*



*“Financial management is that area of business management devoted to a judicious use of capital & a careful selection of source of capital in order to enable a spending unit to move in the direction of reaching goals.”-*

**J .F . Brandley**





# *Investment Decisions*

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- *Investment decision refers to selecting and acquiring the long-term and short-term assets in which funds will be invested by the business.*
- *Long term investment decision is referred to as **capital budgeting**.*
- *Short term investment decision is referred to as **working capital management**.*

- *Capital budgeting*, also known as an “investment appraisal,” is a financial management tool to measure a project's potential risks and expected long-term return on investment.
- *Working capital management* is a business strategy designed to ensure that a company operates efficiently by monitoring and using its current assets and liabilities to their most effective use.



# *Importance of Investment Decision*

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- ***Affects Firm Growth***
- *Investment decisions have long term effects on the earning potential and growth rate of a firm.*
- ***Determines Risk***
- *These decisions carry a high degree of risk as funds are committed for a longer period. Individuals invest a large amount on the basis of expected income in the future which is totally uncertain*

- ***Larger Investments***

- *Investment decisions are taken for the deployment of huge funds for a longer period. Proper planning of investment and monitoring of expenditures should be necessarily done by each firm for attaining goals.*

- ***No-Going Back***

- *Decisions related to investment are mostly of irreversible nature. Finding a market for disposing of permanent assets without incurring heavy losses is quite difficult.*

- ***Difficult Decisions***

- *Investment decisions involve several complexities as they are based on future events that are beyond prediction..*



# *Financing Decisions*

- *Financing decisions refer to the decisions that companies need to take regarding what proportion of equity and debt capital to have in their capital structure.*
- *It consists of three parts ,i.e.*
  - 1) Cost of capital*
  - 2) Capital structure decisions*
  - 3) Leverages*



# *Dividend Decisions*

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- *Dividend decision* relates to how much of the company's net profit is to be distributed to the shareholders and how much of it should be retained in the business for meeting the investment requirements.
- It has two parts ,i.e,
  - 1) *Dividend Policies*
  - 2) *Retained Earnings*



# DIVIDEND DECISION

RETAINED  
EARNINGS

DIVIDENDS



## Dividend Policy

*A dividend policy is the policy a company uses to structure its dividend payout to shareholders.*

## Retained Earnings

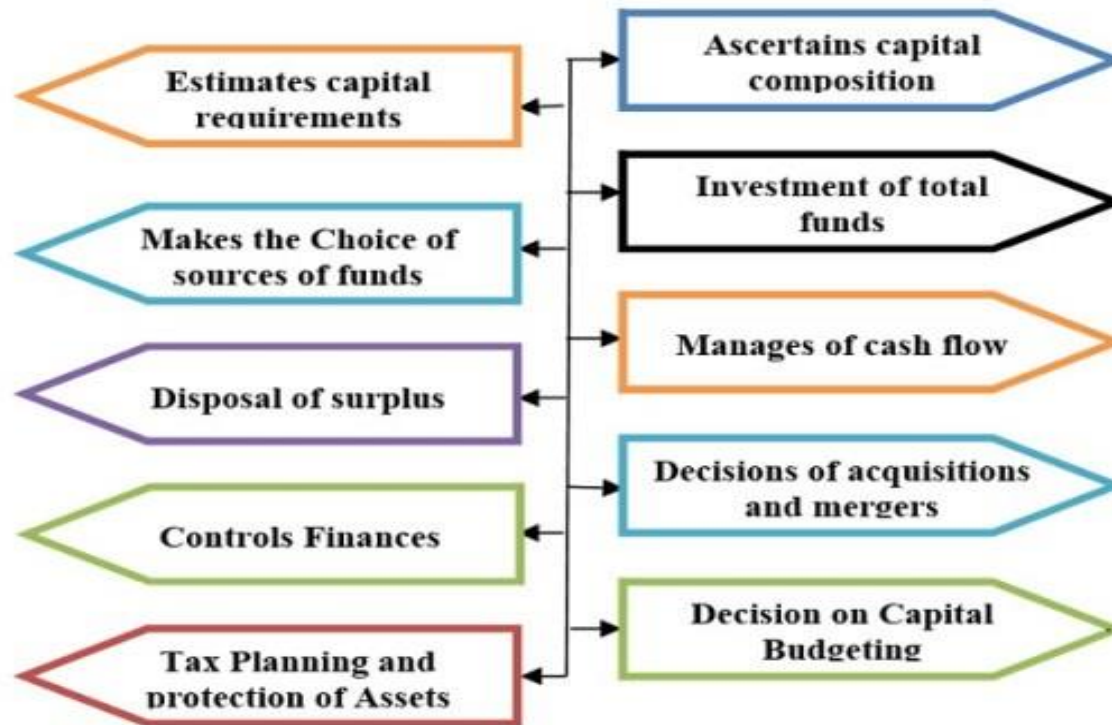
*Retained earnings are the cumulative profits that remain after a company pays dividends to its shareholders. These funds may be reinvested back into the business by, for example, purchasing new equipment or paying down debt.*



# **FUNCTIONS OF FINANCIAL MANAGEMENT**



## 10 Major Functions of Financial Management





# OBJECTIVES OF FINANCIAL MANAGEMENT



- *Proper Mobilisation of Funds*
- *Proper Utilisation of Funds*
- *Earning more Profits*
- *Maintaining Liquidity*
- *Maximizing Shareholders Wealth*
- *Reserves*
- *Increase in Overall Efficiency*
- *Generates Goodwill*





*Sustainable Finance*

