**Corporate finance**[[edit](https://en.wikipedia.org/w/index.php?title=Finance&action=edit&section=3)]

*Main article:*[*Corporate finance*](https://en.wikipedia.org/wiki/Corporate_finance)

[Une image contenant personne, homme, complet, cravate

Description générée automatiquement](https://en.wikipedia.org/wiki/File:JackWelchApril2012.jpg)

[Jack Welch](https://en.wikipedia.org/wiki/Jack_Welch), an American business executive, author, and [chemical engineer](https://en.wikipedia.org/wiki/Chemical_engineer). He was chairman and CEO of [General Electric](https://en.wikipedia.org/wiki/General_Electric)between 1981 and 2001. During his tenure at GE, the company's value rose 4,000%.

Corporate finance deals with the sources of funding and the [capital structure](https://en.wikipedia.org/wiki/Capital_structure) of corporations, the actions that managers take to increase the value of the firm to the shareholders, and the tools and analysis used to allocate financial resources. Although it is in principle different from managerial finance which studies the financial management of all firms, rather than corporations alone, the main concepts in the study of corporate finance are applicable to the financial problems of all kinds of firms. Corporate finance generally involves balancing risk and profitability, while attempting to maximize an entity's assets, net incoming cash flow and the value of its [stock](https://en.wikipedia.org/wiki/Stock), and generically entails three primary areas of capital resource allocation. In the first, "capital budgeting", management must choose which "projects" (if any) to undertake. The discipline of [capital budgeting](https://en.wikipedia.org/wiki/Capital_budgeting) may employ standard [business valuation](https://en.wikipedia.org/wiki/Business_valuation) techniques or even extend to [real options valuation](https://en.wikipedia.org/wiki/Real_options_valuation); see [Financial modeling](https://en.wikipedia.org/wiki/Financial_modeling#Accounting). The second, "sources of capital" relates to how these investments are to be funded: investment capital can be provided through different sources, such as by shareholders, in the form of [equity](https://en.wikipedia.org/wiki/Equity_(finance)) (privately or via an [initial public offering](https://en.wikipedia.org/wiki/Initial_public_offering)), [creditors](https://en.wikipedia.org/wiki/Creditor), often in the form of [bonds](https://en.wikipedia.org/wiki/Bond_(finance)), and the firm's operations ([cash flow](https://en.wikipedia.org/wiki/Cash_flow)). Short-term funding or [working capital](https://en.wikipedia.org/wiki/Working_capital) is mostly provided by banks extending a line of credit. The balance between these elements forms the company's [capital structure](https://en.wikipedia.org/wiki/Capital_structure). The third, "the dividend policy", requires management to determine whether any unappropriated profit (excess cash) is to be retained for future investment / operational requirements, or instead to be distributed to shareholders, and if so, in what form. Short term [financial management](https://en.wikipedia.org/wiki/Financial_management) is often termed "[working capital management](https://en.wikipedia.org/wiki/Working_capital_management)", and relates to [cash-](https://en.wikipedia.org/wiki/Cash_management), [inventory](https://en.wikipedia.org/wiki/Inventory)- and [debtors](https://en.wikipedia.org/wiki/Debtor) management.

Corporate finance also includes within its scope business valuation, stock investing, or [investment management](https://en.wikipedia.org/wiki/Investment_management). An investment is an acquisition of an [asset](https://en.wikipedia.org/wiki/Asset) in the hope that it will maintain or increase its value over time that will in hope give back a higher rate of return when it comes to disbursing dividends. In [investment management](https://en.wikipedia.org/wiki/List_of_finance_topics#Investment_management) – in choosing a [portfolio](https://en.wikipedia.org/wiki/Portfolio_(finance)) – one has to use financial analysis to determine *what*, *how much* and *when* to invest. To do this, a company must:

* Identify relevant objectives and constraints: institution or individual goals, time horizon, risk aversion and tax considerations;
* Identify the appropriate strategy: active versus passive hedging strategy
* Measure the portfolio performance

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Description générée automatiquement](https://en.wikipedia.org/wiki/File:James_Simons_2007.jpg)

[James Harris Simons](https://en.wikipedia.org/wiki/James_Harris_Simons) American mathematician, [hedge fund manager](https://en.wikipedia.org/wiki/Hedge_fund), and philanthropist. He is known as a [quantitative investor](https://en.wikipedia.org/wiki/Quantitative_analyst) and in 1982 founded [Renaissance Technologies](https://en.wikipedia.org/wiki/Renaissance_Technologies), a private hedge fund based in East Setauket, NY.

Financial management overlaps with the financial function of the [accounting profession](https://en.wikipedia.org/wiki/Accounting_profession). However, [financial accounting](https://en.wikipedia.org/wiki/Financial_accounting) is the reporting of historical financial information, while financial management is concerned with the allocation of capital resources to increase a firm's value to the shareholders and increase their rate of return on the investments.

[Financial risk management](https://en.wikipedia.org/wiki/Financial_risk_management), an element of corporate finance, is the practice of creating and protecting [economic value](https://en.wikipedia.org/wiki/Economic_value) in a [firm](https://en.wikipedia.org/wiki/Business) by using [financial instruments](https://en.wikipedia.org/wiki/Financial_instrument) to manage exposure to [risk](https://en.wikipedia.org/wiki/Financial_risk), particularly [credit risk](https://en.wikipedia.org/wiki/Credit_risk) and [market risk](https://en.wikipedia.org/wiki/Market_risk). (Other risk types include [foreign exchange](https://en.wikipedia.org/wiki/Foreign_exchange_risk), shape, [volatility](https://en.wikipedia.org/wiki/Volatility_(finance)), sector, [liquidity](https://en.wikipedia.org/wiki/Liquidity_risk), [inflation](https://en.wikipedia.org/wiki/Inflation) risks, etc.) It focuses on when and how to [hedge](https://en.wikipedia.org/wiki/Hedge_(finance)) using financial instruments; in this sense it overlaps with [financial engineering](https://en.wikipedia.org/wiki/Financial_engineering). Similar to general [risk management](https://en.wikipedia.org/wiki/Risk_management), financial risk management requires identifying its sources, measuring it (see: [Risk measure#Examples](https://en.wikipedia.org/wiki/Risk_measure#Examples)), and formulating plans to address these, and can be qualitative and quantitative. In the banking sector worldwide, the [Basel Accords](https://en.wikipedia.org/wiki/Basel_Accords) are generally adopted by internationally active banks for tracking, reporting and exposing operational, credit and market risks.[[7]](https://en.wikipedia.org/wiki/Finance#cite_note-7)

**Financial services**[[edit](https://en.wikipedia.org/w/index.php?title=Finance&action=edit&section=4)]

*Main article:*[*Financial services*](https://en.wikipedia.org/wiki/Financial_services)

An entity whose income exceeds its expenditure can lend or invest the excess income to help that excess income produce more income in the future. Though on the other hand, an entity whose income is less than its expenditure can raise capital by borrowing or selling equity claims, decreasing its expenses, or increasing its income. The lender can find a borrower—a [financial intermediary](https://en.wikipedia.org/wiki/Financial_intermediary) such as a [bank](https://en.wikipedia.org/wiki/Bank)—or buy notes or bonds (corporate bonds, government bonds, or mutual bonds) in the [bond market](https://en.wikipedia.org/wiki/Bond_market). The lender receives interest, the borrower pays a higher interest than the lender receives, and the financial intermediary earns the difference for arranging the loan.

A bank aggregates the activities of many borrowers and lenders. A bank accepts deposits from lenders, on which it pays interest. The bank then lends these deposits to borrowers. Banks allow borrowers and lenders, of different sizes, to coordinate their activity.

Finance is used by individuals ([personal finance](https://en.wikipedia.org/wiki/Personal_finance)), by governments ([public finance](https://en.wikipedia.org/wiki/Public_finance)), by businesses ([corporate finance](https://en.wikipedia.org/wiki/Corporate_finance)) and by a wide variety of other organizations such as schools and non-profit organizations. In general, the goals of each of the above activities are achieved through the use of appropriate financial instruments and methodologies, with consideration to their institutional setting.

Finance is one of the most important aspects of [business management](https://en.wikipedia.org/wiki/Business_management) and includes analysis related to the use and acquisition of funds for the enterprise.

In corporate finance, a company's [capital structure](https://en.wikipedia.org/wiki/Capital_structure) is the total mix of financing methods it uses to raise funds. One method is *debt financing*, which includes bank loans and bond sales. Another method is [*equity financing*](https://en.wikipedia.org/wiki/Equity_financing) – the sale of stock by a company to investors, the original shareholders (they own a portion of the business) of a share. Ownership of a share gives the shareholder certain contractual rights and powers, which typically include the right to receive declared dividends and to vote the proxy on important matters (e.g., board elections). The owners of both bonds (either government bonds or corporate bonds) and stock (whether its preferred stock or common stock), may be [*institutional investors*](https://en.wikipedia.org/wiki/Institutional_investor)– financial institutions such as investment banks and [pension funds](https://en.wikipedia.org/wiki/Pension_fund)  or private individuals, called [*private investors*](https://en.wikipedia.org/wiki/Private_investors) or *retail investors*.

**Public finance**[[edit](https://en.wikipedia.org/w/index.php?title=Finance&action=edit&section=5)]

*Main article:*[*Public finance*](https://en.wikipedia.org/wiki/Public_finance)

Public finance describes finance as related to sovereign states and sub-national entities (states/provinces, counties, municipalities, etc.) and related public entities (e.g. school districts) or agencies. It usually encompasses a long-term strategic perspective regarding investment decisions that affect public entities.[[8]](https://en.wikipedia.org/wiki/Finance#cite_note-8) These long-term strategic periods usually encompass five or more years.[[9]](https://en.wikipedia.org/wiki/Finance#cite_note-9) Public finance is primarily concerned with:

* Identification of required expenditure of a public sector entity
* Source(s) of that entity's revenue
* The budgeting process
* Debt issuance ([municipal bonds](https://en.wikipedia.org/wiki/Municipal_bond)) for public works projects

Central banks, such as the [Federal Reserve System](https://en.wikipedia.org/wiki/Federal_Reserve_System) banks in the [United States](https://en.wikipedia.org/wiki/United_States) and [Bank of England](https://en.wikipedia.org/wiki/Bank_of_England) in the [United Kingdom](https://en.wikipedia.org/wiki/United_Kingdom), are strong players in public finance, acting as [lenders of last resort](https://en.wikipedia.org/wiki/Lender_of_last_resort) as well as strong influences on monetary and credit conditions in the economy.[[10]](https://en.wikipedia.org/wiki/Finance#cite_note-10)

Capital[[edit](https://en.wikipedia.org/w/index.php?title=Finance&action=edit&section=6)]

*Main article:*[*Financial capital*](https://en.wikipedia.org/wiki/Financial_capital)

[Capital](https://en.wikipedia.org/wiki/Capital_(economics)), in the financial sense, is the money that gives the business the power to buy goods to be used in the production of other goods or the offering of a service. (Capital has two types of sources, equity, and debt).

The deployment of capital is decided by the budget. This may include the objective of business, targets set, and results in financial terms, e.g., the target set for sale, resulting cost, growth, required investment to achieve the planned sales, and financing source for the investment.

A budget may be long term or short term. Long term budgets have a time horizon of 5–10  years giving a vision to the company; short term is an annual budget which is drawn to control and operate in that particular year.

Budgets will include proposed fixed asset requirements and how these expenditures will be financed. Capital budgets are often adjusted annually (done every year) and should be part of a longer-term Capital Improvements Plan.

A cash budget is also required. The working capital requirements of a business are monitored at all times to ensure that there are sufficient funds available to meet short-term expenses.

The cash budget is basically a detailed plan that shows all expected sources and uses of cash when it comes to spending it appropriately. The cash budget has the following six main sections:

1. **Beginning cash balance** – contains the last period's closing cash balance, in other words, the remaining cash of the last year.
2. **Cash collections** – includes all expected cash receipts (all sources of cash for the period considered, mainly sales)
3. **Cash disbursements** – lists all planned cash outflows for the period such as dividends, excluding interest payments on short-term loans, which appear in the financing section. All expenses that do not affect cash flow are excluded from this list (e.g. depreciation, amortization, etc.)
4. **Cash excess or deficiency** – a function of the cash needs and cash available. Cash needs are determined by the total cash disbursements plus the minimum cash balance required by company policy. If the total cash available is less than cash needs, a deficiency exists.
5. **Financing** – discloses the planned borrowings and repayments of those planned borrowings, including interest.