INTRODUCTION TO FINANCE

In general, finance is defined as the provision of money at the time It is required.

Specifically it is defined as procurement of funds and their

effective utilisation.

Financial management is defined as the management of flow of funds in a firm.

All business decisions have financial implications and therefore financial management is inevitably related with every aspect of business operations.

EVOLUTION OF FINANCE

It may be divided into three broad categories, i.e., traditional phase, transitional phase and modern phase.

1.The Traditional Phase (Up to 1940)

In~~itially finance was a part of economic~~ activities and business owners were more concerned with the operational activities.

Characteristics of this phase were :

-finance function was **episodic**in nature.

-funds were arranged mainly from financial institutions or

through shares/ debentures.

-the outsider's point of view was dominant

2. Transitional Phase (1940 –1950)

Here though the nature of financial management was similar to traditional phase but greater emphasis was placed on day-to-day activities.

Funds analysis and control on a regular basis, rather than on a casual basis.

3. The Modern Phase (After 1950)

Started since mid 1950's.

Rapid growth of business and competition increases the importanceof finance not only for episodic events but also for day-to-day activities.

The finance manager has emerged as a professional manager involved with fundsto beraised by thefirm, withtheallocation of these funds to different projects and with the measurement of the result of each allocation.

Major characteristics of modern phase are :

-the firm (i.e., insider) is more important

-rational matching of funds to their uses so as to maximise the wealth of the current shareholders.

-the approach has become more analytical and quantitative

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FINANCIAL DECISIONS IN A FIRM

The decisions of raising funds investing them in assets and distributing returns earned from assets to shareholders are respectively known as financing decision, investment decisions and dividend decision.

Afirmattemptstobalancecashinflowsandoutflowswhileperforming these decisions.

There are three broad areas of financial decision making –capital budgeting, capital structure and working capital management.