6/1/24 # Unit 1 : Introduction :-

1. Define financial management ? Explain the nature of financial management.

A) **Introduction :-**

The term financial management consist of two words, financial & management. Financial deals with the process of Identifying, ~~op~~ obtaining and allocating sources of money. Management is the process of planning, organizing, co-ordinating and controling various resources for the acomplishment of organisational goals.

Financial management is that a branch of business management process, which deals with management of financial resources of an enterprise. Financial management may be consider to be the management of the finance function. It provides best guide for future resource allocation by a firm.

Definitions :-

"Financial management involves the application of general management principles to a particular financial operation" - Howard

"Financial management is the application of the planning and control function to the finance function". - Archer & ambrosio

"Financial management is consern with those managerial decisions, which result in the acquisition and financing of long term and short term assets of a firm".
- S.C. Kuchhal

Nature of financial management :-

A financial manager will have to concentrate on the following areas of finance function

1. **Estimating Capital Requirement :-**
The first task of a financial manager is to estimating capital requirement. It helps in

anticipation of funds by estimating working capital and fixed capital requirements for carring business activities.

2. Deciding Capital structure.

Capital structure refers to proper balance between debt and equity should be attrained, which minimizes the cost of capital.

Financial management desides proper portion of different securities should be raised. A decision about various sources for funds should be linked to the cost of raising funds

3. Selecting a source of finance :-

An appropriate source of finance is selected after preparing a capital structure, which includes shares, debentu-res and bonds, financial institutions, Public deposits etc..

If finance is needed for short term finance than banks, public deposits. and financial institutions ~~pay~~ may be appropriate. On the other hand, If long term finance is required than share capital and debentures may be the use-ful.

4. Selecting a investment Pattern :-

The funds will have to be spent first on fixed assets and then an approriate portion will be retained for other requirements that is working capital

5. Proper Cash Management :-

Cash management is an important task of financial manager. He has to assess various cash needs at different times and then make the arrangements for arrang-ing the cash.

Cash may be required to Purchase of raw materials, make payments to creditors, other day-to-day expenses. The idel cash with the business that means it is not properly used

6. Implementing financial controls :-

It helps in keeping the Company, actual of operation with in the limits and earnings the expected profits.

7. **Proper use of surpluses:-**

The utilization of profits or surpluses is also an important factor in financial management. A balance should be needed in using funds for paying ~~deb~~dividend and retain earnings ~~expansion~~ for financial expansion plans.

2) Explain the scope of financial management (or) Explain the approaches of financial management

A) **Scope of financial management:-**

It can be divided into two different approaches. They are given below

Approaches to scope of financial management
→ Traditional approach
→ modern approach

1. **Traditional approach:-**

The traditional approach to the finance function relates to the initial stages of its evelution during 1920's and 1930's. According to this approach the scope of finance function was confined to only procurement of funds needed by a business. On most suitable firms. The utilization of funds was consider beyond the preview of finance function

Limitations of the traditional approach:-

The traditional approach suffers the following are the limitations.

1. It is outsider ~~internal decision making~~ looking in approach that completely ignores. Internal decision making as to the proper utilization of funds.
2. It is ignored the important issue of working capital finance and management.
3. The issue of allocation of funds in important today, It is completely ignored under this approach.

2. Modern approach:-

The Modern approach views the term finance management in a broad sence. It includes both raising of funds as well as ~~they~~ ~~of~~ their effective utilization ~~of~~ the finance.

The finance function doesn't stop only by finding out sources of raising enough funds, their proper utilization is also to be consider. The utilization of funds requires decision making. Finance has to be consider an integral part of overall management.

So, finance functions according to this approach covers.

* Financial Planning
* Raising of funds
* Allocation of funds &
* Financial control etc...

The modern approach the consider the 3 basic management decisions that is.

1. Investment decisions
2. Financing decisions
3. Dividend decisions

3. Explain the function (or) decision of the financial management?

A) Introduction:-

The modern approach to financial management provides a conceptual and analytical framework for financial decision making. The modern approach to financial Management includes 3 major managerial financial decision (or) functions of finance they are.

1. Invenstment decision.
2. Financing decision.
3. Dividend decision.

- Financial management
  - Investment Decision
    - Capital budgetting
    - Working capital management
  - Financing Decision
    - Financial planning
    - capital structure
  - Dividend decision
    - Devidend policy
    - Retained earings.

1. Investment Decision :-

Investment decision refers to the completion of the assets in term of long term assets and short-term assets.

→ The long-term assets is called "Fixed assets". yielding returns over a period of time in future.

→ The short-term assets, otherwise called "current assets" are convertible into cash usually with in a year. It is the most important financial decision.

the investment decision can be classified under two types :-

ⓐ long term investment decision (or) Capital budgetting.

ⓑ short term investment decision (or) working capital management

Capital Budgeting :-

It is the process of investment decision in capital expenditure. These are expenditures, The benefits of which are expected to received over a long period of time exceeding one year.

Working Capital Management :-

short term investment decision relates to the allocation of funds as among cash and equivalents, receivables and inventories such as decision is influenced by trade off between liquidity and profitability.

2. Financing Decision :-

ⓐ other important decision is to be taken by the financial manager is the financial decision which involves to acquisition of funds to meet the firm investment requirement

(b) Managers make decision related to raising finance from long term sources and short-term sources; they are -

1. financial planning decision.
2. Capital structure.

① Financial planning decision:-

which relates to estimating the source and application of funds. The primary objective of financial planning is to plan and ensure that the funds are available as when required.

② Capital structure decision :-

which involves identifying source of funds. It choosing the external sources like issuing ~~source~~ shares, bonds, borrowing forms banks (or) Internal sources like retained earnings for raising funds.

$\boxed{\text{Capital structure} = \text{Equity} + \text{Debt}}$

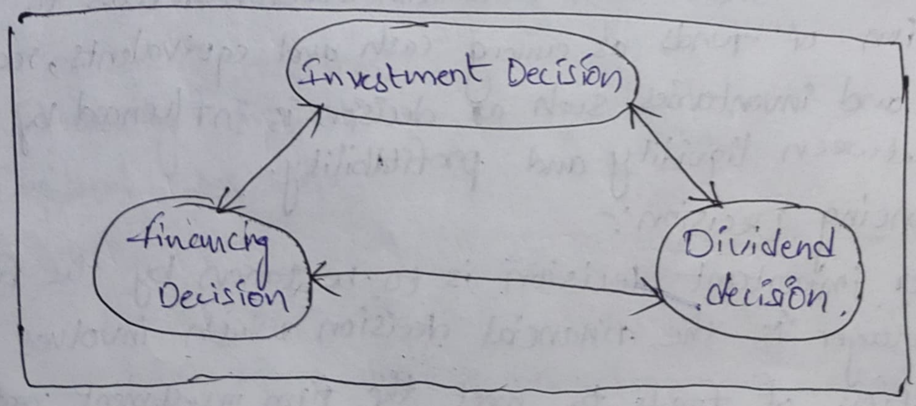
③ Dividend decision:-

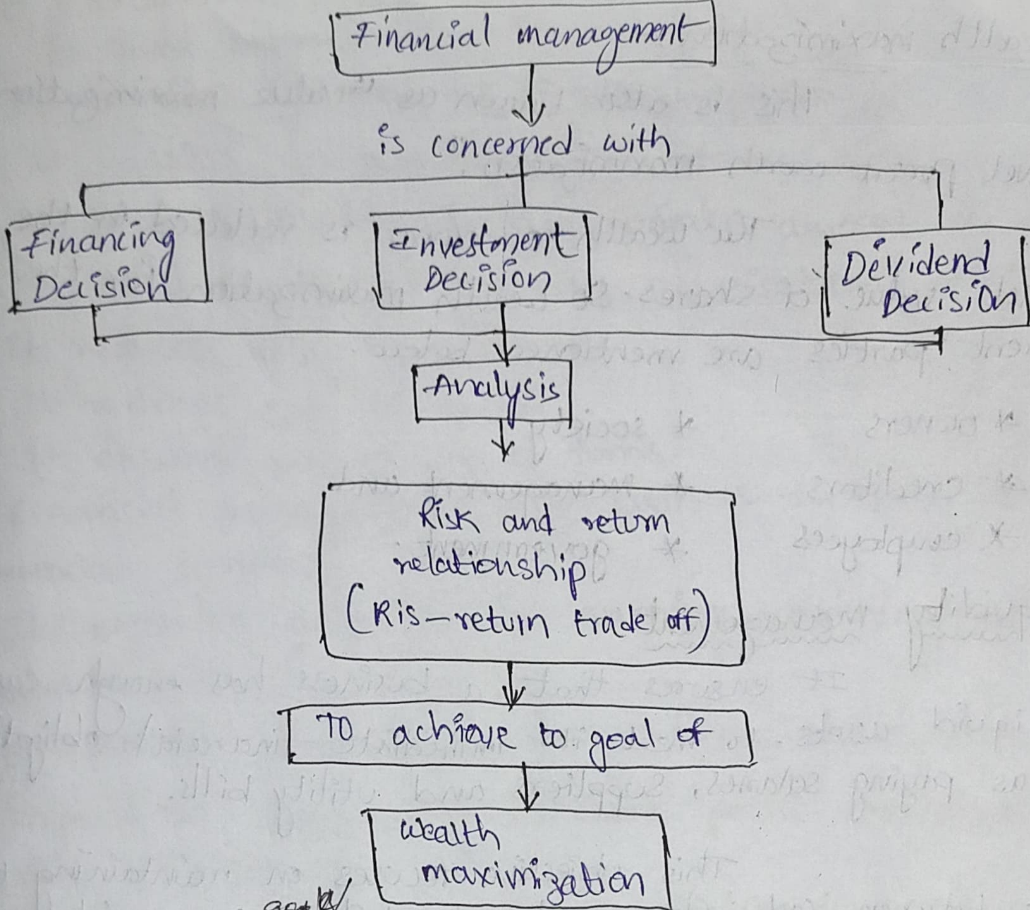
The third important managerial financial decision relates to firm's dividend Policy there involve decision related to the ~~platfor~~ portion of profit that will be distributed as dividend. Dividend is that portion of divisible profit that is distributed to the owner i.e., the shareholders.

Retained earnings is the proportion of profits kept in, that is invested in the business.

The optional divided policy maximizes the value of the share and it is consistent with the objective of welth maximization.

Inter-Relational Decision :-





goals/
(4) write the objectives of ~~health~~ financial Management?

A) The objectives of Financial Management is ensuring the efficient use of financial resarces to acheive the organisation's goals. These are the main objective of financial management are given below.

1. <u>Profit</u> <u>maximization</u>:-

According to this approach, action that increase profit should, be ~~understand~~ undertaken and those that decrease profits are to be avoided.

Profit maximization, implies that the investment financing and dividend policy decision of the firm should be oriented to the maximization of profit.

* optimum utilization of fixed assets.
* Market leadership
* providing incentives
* Avoiding risk
* preventing government intervention.
* Maintaining optimum working capital.

② Wealth maximization :-

This is also known as "Value maximization (or) Net present worth maximization".

The wealth of owner is reflected in the market value of shares. So wealth maximization for the different parties are mentioned below.

* owners * society
* creditors * Management and
* employees * government.

3. Liquidity Management :-

It ensures that a business has enough cash or liquid assets to meet its immediate financial obligations such as paying salaries, suppliers and utility bills.

This objective focuses on maintaining the balance between cash inflows and cash outflows to avoid cash shortages. Therefore, financial management aims to maintain an optimum level of liquidity to ensure smooth business operations.

4. Cost of Capital minimization :-

It refers to the expenses incurred in raising funds through debt, equity or other financial instruments minimizing this cost. Is essential for improving profitability and maintaining ~~copi~~ compititiveness.

5. Efficient Resource allocation :-

Efficient Resource allocation ensures that financial resources are directed towards projects and activities that generates the highest returns. Those resources are used effectivally to maximize value creation and avoid waste, contributing to the organisation's overall growth and profitability.

⑤ short
Write the importants of financial management?

A) financial management provides pathways to attain goles and objectives in an organisation. The main duty of a financial manager is to mesure organisational efficiency through proper allocation, ~~aqui~~ acquisition.

and management. The importants of financial manageme-nt is given below.

1. It provides guidens in financial planning
2. It assists in acquiring funds from different sources.
3. It helps in investing an appropriate amount of funds.
4. Financial Management increases orgauisational efficiency
5. It reduces delay production.
6. It reduces cost of fund.
7. It ensures proper use of funds.
8. Financial management helps business firm to take financial decisions.
9. It provides guidelines for earning maximum profits with minimum cost.
10. It provides information through financial reporting.

short

⑥ Explain the differences between profit maximization and wealth maximization.

A) Differences between profit maximization & wealth maximi-zation:—

profit maximization	wealth maximization.
1. The process through which the company is capable of increasing earning capacity is known as profit maximization	1. The ability of the company in increasing the value of its stock in the market is known as wealth maximization.
2. Profit maximization is a short term objective of the firm	2. wealth maximization is a long-term objective of the firm
3. Profit maximization ignores risk and uncertainity.	3. wealth maximization recognise and considers both
4. It avoids time value of money	4. wealth maximization recognises the time value of money.
5. It is neccessary for the survival and growth of the enterprise.	5. It ~~assi~~ accelerates the growth of the enterprise and aims at attaining the maximum market share of the economy.

⑦ Explain the role of financial manager in modern Business organisations?

A) A financial manager is a person who is responsible in a significant way to carry out the finance. It should be noted that in a modern enterprise the financial manager occupies a key position. He/she is one of the members of the top management team and his/her role to the day-to-day is becoming more intensive and significant in solving the complex funds management problems.

The financial manager is now responsive for shaping to fortunes of the enterprise and foresighted outlook funds of the enterprise are utilised in the most efficient manner. that's why finance manager is an integral part of corporate management of a organization.

The main role of a finance manager is to perform the following functions.

1. Determining financial needs :-

One of the most important functions of the financial manager is to ensure the availability of adequate financing financial needs have to be assessed for different purpose money may be required for initial promotional expenses fixed capital and working Capital needs. promotional expenditure includes expenditure incurred in the process of company formation.

2. Determining Source of funds :-

The financial manager has to chooses sources of funds. He may issue different types of securities and debenture may borrow from a number of finance institutional and the public. the financial manager must definitely know what he is doing workout strategies to ensure good financial health of the firm.

3. Financial analysis :-

It is the evaluation & interpretation of a firm's financial position and operation and involves a comparison and interpretation of accounting data the financial manager has interpret different statement.

4. **optimal capital source :-**

The F.M has to establish an optimum capital structure and ensure the maximum rate of return on investment and the liabilities carrying fixed changes has to be defined.

5. **Cost volume profit Analysis :-**

This is popularly known as the CVP relationship for this purpose are fixed cost. variable cost and semi-variable cost have to be analyzed.

6. **profit planning and control :-**

profit planning and control have assumed great importance in the financial activities of modern business profit planning ensures the attainment of stability and growth the break even analysis and cost volume profit. it ananlysis are important tools in profit planning and control of the firms.

7. **Fixed assets Management :-**

A firm fixed assets are land, building, machi-nery and equipment, furniture and such intangibles as patents, copy rights and good will these fixed assets are justified to the extent of the utility or their production capacity.

8. **Capital budgeting :-**

It refers to the long term planning for investment in projects and fixed assets and methods of financing the approved projects. It includes the method of mobilizations of long-term funds and their deployments in profitable projects. Capital budgeting is consider as the process of making investment decisions on capital expenditure.

9. **Dividend policies :-**

The Dividend policy of a firm determines the magnitude of the earnings distributed to shareholders the net operating profit or profit after tax (PAT) has to be intelligently apportioned between dividend payments and investments the dividend policy determines the amount of dividend payment. to be made to the shareholders. The date of payments of dividends and the effect of the dividend policy on the value of the firm.

10. **Acquisition and mergers:-**

A merger is a transaction where two firms agree to integrate their operations on a relatively equal basis because they have resources and capabilities that together may create a stronger competitive advantage two or more companies combine. to form either a new company or one of the combining companies survives which is generally the acquires.

8. write the functions on finance (or) Detailed notes on finance functions.

A)

Its financial resources wisely to achieve its goals, remine stable. and grow overtime. The following are the various functions of finance.

1. **Investment Decisions :-**

TO put money for growth, like buying new equipment, launching a new product. Evaluating different options to choose the best one with the best results.

2. **Financing Decisions :-**

Deciding how to raise money for the business, such as taking loans, issuing shares or company savings. Choosing the right mix of debt and equity. to balance. cost and risk.

3. **Dividend Decisions :-**

Deciding how much profit to distribute to share-holders as dividend and how much to reinvest in the business.

4. Working Capital management :-
It is important for the company has enough cash to meet short term needs without holding too much of cost.

5. Profit management :-
controling cost and improving revenues to maximize ~~cost~~ profits. Focuses on increasing efficiency and finding ways to grow earnings.

6. Risk management :-
It ensures the business is protected from unexpected financial loses. ~~Financial~~

7. Financial Analysis and Reporting :-
Analysing financial data to understand the compan's Performance. Preparing reports like profit and lose statements. or balance sheet. for share holders.