Date: 06.01.2024

Financial Function

- The finance function in business refers to the functions intended to acquire and manage financial resources to generate profit.
- It produces relevant financial resources and information contributing to the productivity of other business functions, planning, and decision-making activities.
- The four major types of financial decisions are investment, liquidity, financial, and dividend decisions.

Types of Finance Functions

There are different classifications for finance functions, and it varies with organization types. The finance department functions like bookkeeping, budgeting, forecasting, and management of taxes, and the finance manager functions like financial report preparations contribute to the overall financial wellbeing of an entity. Let's look into some of the popular classifications.

- Investment decision
- *Financing decision*
- *Dividend decision*
- *Liquidity decision*

The finance function is divided into three categories:

- **Long-Term Finance**

  This comprises financing for investments that will last three years or longer. Owner capital, share capital, long-term loans, debentures, internal funds, and other forms of long-term financing are examples of sources of long-term financing.

- **Medium-Term Finance**

  This is funding done for one to three years and may be obtained via bank loans and financial institutions.

- **Short-Term Finance**

  It refers to the financing required for less than one year. Examples include overdrafts from banks, commercial paper, client advances, trade credit, and other funding sources.

Finance Functions Objectives

- **Investment decisions**

  This is when the finance manager determines where the company's cash should be invested. Investment choices linked to working capital management, capital budgeting decisions, merger management, and the acquisition or leasing of assets are all investment decisions. Investment choices should generate income, profitability, and cost savings.

- **Decisions on financing**

  This is when a corporation determines where to seek financing. Essentially, there are two primary sources to consider: stock and borrowed funds. A choice on the proper balance of short- and long-term finance should be made based on the information provided by the two. It is also necessary to agree on the finest sources of finance available at any particular moment.

- **Dividend choices**

  These are the decisions about how much, how often, and whether cash should be returned to shareholders. It is necessary to balance the number of earnings kept and the number of dividends given out.

- **Liquidity decisions**

  They are based on whether or not the company has enough money to pay its payments on time and maintain adequate cash reserves to deal with unanticipated situations. This choice concerns the management of current assets to ensure that you do not become bankrupt or that you do not fail to meet your obligations.

The Importance of Finance function

- **Identify the need for a Finance function**

  Before you can establish a company, you must first determine the amount of money necessary to get it up and running. As a result, the financial function assists you in determining the amount of initial capital required, how much of it you now have, and how much you need to obtain.

- **Identify Potential Sources of Finance function**

  Once you've determined how much money you'll need to raise. You will want to think about where you can get the money. You have the option of borrowing or obtaining from numerous stockholders.

- **Comparison of the Finance function**

  After discovering various funding sources, assess the costs and risks associated with each one. Then decide on the most appropriate funding source for your company's requirements.

- **Investment**

  After the money has been raised, it is time to put them to use. Investment choices should be made to receive greater returns on their investments. The cost of obtaining money should be less than the return on investment; if this is the case, the investment was considered prudent.