Financial management

Money is required to carry out business activities known as business finance.

Financial management is efficient acquisition, efficient utilization and efficient distribution and disposal of surplus for smooth functioning.

Roles

All the activities are directly or indirectly affected by management some are as follows:

* Size and composition of organisation :- It depends directly on investment decision i.e. how much capital is planning to invest in fixed assets.

* Amount & composition of current assets: ⊙ Amt of current assets and its division in cash, bill receivable etc also depends on financial decisions.

* Amt of long term & short term financing → ⊙ Amt Raise from long term as well as short term depends upon its financial management.

* Fixing debt & equity ration in capital :- Firm can raise fund through debt or by issue of shares. It help in fixing that ratio in a firm.

* All item of profit & loss A/C ⊙ capital budgeting, reinvestment.
affect the P/L statement. e.g. more debt requires more int. payment.
⊙ we can see impact of decision on various items such as interest Profit etc.

Objectives

* Primary and most important objective of management is to maximise wealth of share holder.
which means maximising the market price of equity shares.

* Secondary objectives

⊙ Profit maximisation fund should deployed in such a way that benefit of investment exceed its cost.

⊙ Availability of fond at Reasonable cost ÷ Raise fund with minimun cost and minimom risk.

⊙ Maintaing liquidity ÷ To maintain liquidity and profitability through capital decisions.

⊙ Ensure safety of funds ÷ Ensure saftey by creation of reserves, reinvestment etc.

Financial decisions

concerned with three major decisions.

financial decisions
- Investment
  - capital budgeting
  - working capital
- financing
  - debt
  - equity
- Dividened.
  - Retained earnings
  - dividened

Investment decision

Careful selection of assets in which funds are to invested.
It can be long or short term.

long term investment

- It involves committing finance on long term basis.
- It is also known as capital budgeting decisions.
- Eg. making investment on new machines, opening new branch etc.
- These decisions are irreversible, They need to be taken with utmost care.

Short term investment

- concerned with decisions about level of cash, inventory required to be held by business for smooth functioning.
- It affects the day to day working of business
- It affect liquidity as well as profitability of the business
- It is also known as capital budgeting.

Factor affecting

- Cash flow of the project :- when business invest huge Amt- then it expects regular and reasonable ~~out~~ inflow. Cash generation in anaylsed in selecting desired project.
- Rate of Returns. Each project is select after comparing. expects return and degree of risk involve.
- Investment criteria :- No of calculation regarding investment rate, cash flow etc.

Financing decisions

- Quantum of finance to be raised from various source of finance.
- Concerned with how much finance is to be raised from which source.
- main sources are: Owned fund's: Included share capital and retained earnings. costly, involve risk is less
  Borrowed fund's: It includes debentures, loans, bonds etc

Factors affecting

- Cost: raising from different fund is different. financial manager generally prefer cheap source.
- Risk: Risk with different source is diffrent. More risk is associated with borrowed as compared to owner's fund,
- Floatation cost: Refer to cost involve in issue of securities. e.g. underwritting, commission, stampduty etc.
- cash flow Position: stronger cash flow refer to debt financing whereas equity should be prefered with shortage of cash.
- control consideration: Issue of equity may lead to dilution
  → company which are afraid of takeover would issue dbt
  → On other which don't mind the lose of control have to issue equity

Dividend Decision

→ involve deciding how much profit is distributed among shareholders & how much it should retaine in business.

→ It is taken ~~regarding~~ by keeping in view the overall objective is maximisation of shareholder's wealth.

→

Factors affecting

⊙ Amt of earning → More earning ensure greater dividend.
→ less earning lead to declaration of low dividened.

⊙ stability of decision :- follow of policy stable and steady statisfies shareholder & help in building reputation.

⊙ Growth opportunities :- having growth prospects declare less dividened.

as compared which don't have any growth plans

⊙ Taxation Policy :- higer pay, lesser divided.
• tax rate low declare higer dividened.

⊙ stock market Reaction :- Higher rate have positive impact whereas lower have a negative impact.

Financial Planning

Estimating fund requirement and specifying the source of finance. It aims to insure enough fund available at ringht time.

⊙ Estimate fund requirement.
⊙ Identifying source of finance
⊙ proper utilisation and administration of fund.

Objectives

- **Insure availability of fund**
  - → Insure sufficient fund available at right time for different purpose
  - → Specify possible source of funds.
- **To ensure unnecessary finance is no raised**
  - → Surplus fund aim to use it in best possible manner.
  - → aim to match fund requirement with availability