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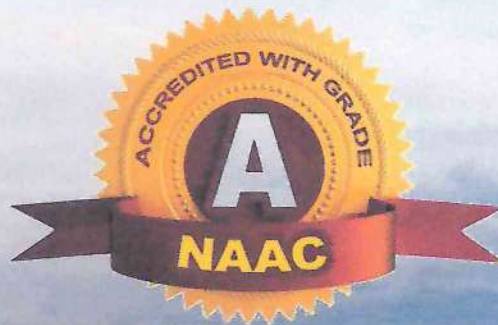
EDUCATION EMPOWERS

Self-Learning Material Open and Distance Learning Program

MASTER OF COMMERCE (M.Com.)

OLMCM113 – FINANCIAL MANAGEMENT

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Shobhit Institute of Engineering & Technology, Meerut

[NAAC "A" Grade Deemed to-be University established u/s 3 of UGC Act]

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UNIT - 1 INTRODUCTION

STRUCTURE

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1.0 LEARNING OBJECTIVES

After studying this unit, you will be able to:

- Describe nature of financial management
- Identify scope of financial management
- State the need and importance of Financial management
- List the functions of Financial management

1.1 INTRODUCTION

One of the essential requirements for starting any business is financing. Furthermore, during a company's existence and even after it is sold or wound up, a sufficient corpus of funds and effective financial management are needed. Therefore, at every stage of the business lifecycle, finances must be managed, regulated in accordance with regulations, and monitored.

Businesses with stronger financial management experience exponential growth, whereas those with poorer financial management typically suffer losses or produce lesser earnings.

Financial management is known as Planning, arranging, managing, and controlling financial activities, such as the acquisition and use of an organization's funds. It entails applying general management ideas to the company's financial resources.

1.2 MEANING AND DEFINITION

Financial management is that managerial activity which is concerned with the planning and controlling of the firm's financial resources. In other words it is concerned with acquiring, financing and managing assets to accomplish the overall goal of a business enterprise (mainly to maximise the shareholder's wealth).

"Financial management is concerned with the efficient use of an important economic resource, namely capital funds" - Solomon Ezra & J. John Pringle.

"Financial management is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient business operations" - J.L. Massie.

"Financial Management is concerned with managerial decisions that result in the acquisition and financing of long-term and short-term credits of the firm. As such it deals with the situations that require selection of specific assets (or combination of assets), the selection of specific liability (or combination of liabilities) as well as the problem of size and growth of an enterprise. The analysis of these decisions is based on the expected inflows and outflows of funds and their effects upon managerial objectives". - Phillippatus.

In simple terms, financial management is the business function that deals with investing the available financial resources in a way that greater business success and return-on-investment (ROI) is achieved. Financial management professionals plan, organize and control all transactions in a business. They focus on sourcing the capital whether it is from the initial investment by the entrepreneur, debt financing, venture funding, public issue, or any other sources. Financial management professionals are also responsible for fund allocation in an optimized way to ensure greater financial stability and growth for the organization.

1.3 NATURE AND SCOPE OF FINANCIAL MANAGEMENT

A financial manager controls the budget of an entire organisation's business process. S/he also handles financial decisions such as procuring and utilisation of funds for a company to yield optimal profits. In fact, the scope of financial management is quite vast and has evolved over the last decades. You need technical familiarity with accounting principles in addition to overseeing daily managerial tasks and understand how this discipline differs today from its old approach. Let's explore this broad role of finance

Traditional Approach to Financial Management

Earlier financial management's main focus was on procuring resources that are either short- or long-term, from financial institutions like banks. The financial manager would then mobilise these funds through various assets that can be traded, which include bonds and equity shares, among others. In the traditional approach, the finance function aligns with accounting and complies with legal standards.

Modern Approach to Financial Management

The modern approach is necessary as globalisation started to transform the global economy. The financial industry has seen many changes due to recent technological innovations in the recent years. These factors have contributed to a larger and deeper finance environment that needs in-depth analysis. The old approach no longer works as it cannot reach the range of decisions that financial management demands today.

The modern financial management approach focuses on efficiency. The financial manager of today needs to evaluate a company's asset requirements, funds and recognise alternative ways how to finance and utilise the assets. For that, s/he looks into different concepts such as capital budgeting, capital management, etc.

The modern financial manager is responsible for making three types of decisions that are interrelated to one another.

Investment Decisions: This type of decision refers to ones that drive maximum profit. The financial manager has to control that a particular investment should never have less profit. Referred to as hurdle rate, it is a metric that allows financial managers to evaluate whether they should make an investment decision. This helps in prioritising investments as well as reducing risks.

Financing Decisions: These refer to ensuring a firm's working capital is optimum. Using the basic finance principles on capital structure (debt and equity), depreciation, along with observing the stock market, s/he makes a finance decision, be it, for raising or arranging funds.

Dividend Decisions: It is basically the payout to the shareholder from your business's profits. Modern financial managers determine the company's dividend policies.

1.4 ELEMENTS OF FINANCIAL MANAGEMENT

Financial Management is made of the following key elements. These are:

1. Financial Planning

Financial Planning is a way of calculating the capital required by an organization and adequately allocating resources accordingly. To do this effectively, one needs to have answers to the following questions:

Do you have well-established business goals and objectives?

What is your long-term plan as a brand?

What is the capital required for the organization to sustain itself?

What are the different policies and regulations involved in your business?

Answers to each of these questions and many more are all related to Financial Management. So, it is crucial to plan things properly that help you achieve your business goals.

2. Financial Control

It is a pivotal activity to ensure the business is working to meet its objectives. It is more about setting proper KIPs rather than reducing costs. It is essential to ensure everyone in the team is aware of both financial and business goals.

3. Financial Decision-making

Once you have a proper plan and understanding of all the financial aspects, decision-makers should access and decide on fundings, resource allocations, profit distributions, and many more.

Financial decisions are necessary elements of financial management that help to ensure that the available resources are used most beneficially. They also help in achieving a minimum financial performance that will enable the company to survive. Decisions can be of two types – long-term and short-term. Financial management provides the framework within which these decisions are taken. There are mainly three types of decision-making which are investment decisions, financing decisions, and dividend decisions.

Investment Decisions

As the name suggests, these are made about how the organization's funds are invested to its best benefits. There are both long-term and short-term investment decisions. The long-term decisions involve large amounts and are most irreversible except by incurring huge costs. Short-term investments are made for the daily work of a company. This can include decisions on cash, inventory, and receivables.

Financing Decisions

These decisions affect the amount of finance raised and the methods used for it. These decisions are on the capital structure of a company which is made up of owner's and borrowed funds. Companies could use sources like equity shares, preference shares, debentures, and bank loans to raise funds. Cost and cash flow position are the main factors that affect these decisions. The financial risk management course says that risk of repayment is also considered when making these decisions.

Dividend Decisions

Financial managers consider various factors before deciding how much of the profit earned must be paid to shareholders as dividend. All companies retain a portion of the earnings for development activities and emergencies. These decisions are taken with the objective of increasing shareholder wealth. Companies with stable and high earnings can pay more dividends to their shareholders. The dividends don't change with small or temporary fluctuations in earnings.

4. Financial Reporting

This is the main component of financial management. It is not enough for them to source and utilize funds for the organization. They must also share the information with others. There are various stakeholders like investors, creditors, lenders, and the government. In some cases, the public must also know how the funds have been used and how they have performed. Financial reporting is a result of accounting. These reports can show the concerned people whether the organization has benefited from the money it holds.

The objective of financial reporting is to inform various stakeholders about the financial position of an organization and changes in it. Such reporting helps the management in making better decisions. It also helps them plan for the future. Investors and lenders can decide on the benefits of investing in such an organization by reading these reports.

The financial risk management course teaches that auditors and government agencies use these reports to ensure that the money has been used for the purpose it is meant for.

The financial statements include balance sheets, profit & loss accounts, cash flow statements, and a statement of change in shareholders' equity. The report will also include notes on the financial information. In the case of listed companies, financial departments must prepare both quarterly and annual reports. The government provides guidelines following which such reports must be prepared. This ensures uniformity in reporting by various organizations belonging to different industries. Another report that the financial management team prepares is a prospectus issued when companies go for an IPO.

Financial Controls

Every organization must make sure that the money it has is being utilized correctly and in the best interests of the shareholders. This is where financial controls are necessary.

It includes the policies put in place by the organization to manage, document, assess, and report financial transactions. Such controls help in optimum utilization of funds. This will prevent funds from leaking. The result will be the realization of desired returns on the investments made. There will also be sufficient cash flow with the plugging of leaks.

When there is proper control over finances, there will be better operational efficiency. The processes and procedures that affect efficiency are removed or optimized. This results in better profitability. This exercise is performed in every department, adding greatly to the earnings of the company. Another significant benefit of financial controls is the prevention of theft. When there are strict controls on overspending, there is little opportunity for fraud. Strict monitoring also prevents online theft.

One of the best ways to implement financial controls is to ensure that only properly qualified persons are involved in the formulation of financial policies. There must be direct communication between the financial managers, accounting staff, senior managers, and the CFO for implementing these controls. The accounting staff must be regularly updated about the latest laws and financial practices. Companies must put in place stringent credit policies for customers.

Allocation And Utilization Of Funds

It is not enough to collect funds to run the company. Investors provide funds intending to see the company grow and earn a profit on the investment. This means that whatever funds have been received from different sources must be allocated and utilized with the utmost care by the financial department. This is why this forms an essential element of financial management.

The funds that are received from banks or institutions as loans must also be used in such a way to cover the finance costs.

There are various areas in a company that will need money for their daily operations. But financial managers must see which departments will give the best returns on the amount allocated. There must be a percentage allocation for different functions. Marketing will probably get a higher percentage than staffing because it will earn better returns. But there are also other areas that are necessary for a company, but they may not earn any returns. This is why this topic is given much importance in a financial management course.

When acquiring funds, financial managers must be ready with a plan to utilize the funds in the best manner. They must also know how the funds will earn money for the company. Investing in fixed assets will earn better returns as their value depreciates over the years. Short-term investments like work capital should not be allowed to block funds. It is best to allocate funds for inventories, cash, and book debts from profits earned, sales of shares, or bank loans.

Cash Flow Management

No business person can ignore cash flow. Whether it is a company of small or large size, cash flow is like their pulse. One must monitor it regularly to ensure that the company functions well and grows. Many companies have suffered due to cash flow mismanagement which can result in various unpleasant consequences. Cash flow is defined as the journey of money through a company. It represents the income and expenditure of a firm. All businesses must preferably have a positive cash flow which means that there should be more money coming in than going out.

Knowing the net cash flow is easy. Take all the expenses for a period and subtract them from the income earned. If the balance is positive, then you have a positive cash flow. A negative cash flow can adversely affect the functioning of a firm. Many companies take a three-month period for calculating cash flow because almost all businesses suffer from periodic ups and downs. Looking at the turnover may make one feel good. But the reality of a business will be known only when one looks at the net cash flow.

Poor cash flow results from various factors. Ordering too much material when there is a demand skew can result in carrying more stock than necessary. This can cause your cash flow to slow down. Offering long credit periods can also adversely affect a company's cash flow. Some companies spend on getting fancy furniture and stuff for their office when they get a big customer. However, they don't realize that the money is still not in their hands. Finance courses caution aspiring financial managers that they should never take their eyes off cash flow movement.

Risk Management

Risk management is a critical element that needs a lot of attention. Whenever a business starts and makes investments in various items, it opens itself to many risks. This can be both internal and external. Risk management is the process of knowing such risks, measuring them, and taking adequate measures to escape from them or lessen their impact on the business. Financial experts identify various types of risks that can affect their business. The loss that can occur due to these events is calculated before looking at ways to overcome them.

Internal risks in a company can come from machine failure, wrong operational practices, or poor product selection. Companies must take maximum precaution because good planning and taking steps beforehand can avoid all these risks. It is more difficult to predict and avoid external risks. The recent pandemic is an example of a disaster that nobody foresaw. Changes in government policies can also affect organizations very badly. The rise or fall of exchange rates can affect import and export companies. A variation in interest rates can also affect firms.

Risks are classified as per their chances of occurrence. Some are very likely to occur, whereas others are not so common. Financial managers give priority to these risks on this basis and take measures to protect the firm. Prevention is the best form of risk management. Most organizations can prevent hazards like fire or explosion by taking precautionary steps.

Organizations can mitigate market risks by doing analytics and seeing patterns that can throw light on future events. Students of a financial risk management course understand that it is a continuous process requiring constant attention.

1.5 IMPORTANCE OF FINANCIAL MANAGEMENT

An organization's financial management sets the goals, creates the policies, specifies the processes, puts programmes into place, and allots the budgets for all financial activities. It is feasible to guarantee that the business will always have access to enough cash through efficient financial management procedures. By examining its primary mission, financial management's significance can be evaluated:

Financial Management is vital for businesses and organisations as it lays the right pathway to achieve business goals and objectives. Here are some of the reasons why financial management is essential in a business:

Aids Businesses To Succeed

Businesses need money to run and succeed. Even if a company starts with a considerable amount of cash, there will be additional needs as it functions. Without expansion and growth, companies cannot succeed, and this needs money. Proper financial planning is essential to make sure that there is enough money for all the company's activities and business growth. A company that is running in profit can find itself not having enough money for regular operations if there is no proper financial management.

Financial management is executed by experts in this field. Company owners may plan for more expenses over revenues. This can land the company in serious trouble as vendors and others the firm owes money start demanding their payment. A company that doesn't make payments promptly loses its reputation. Without getting supplies from the vendors, the organization may have to close down. A financial risk management course teaches its students many examples of such companies that have shut down.

Helps The Company Remain Compliant

Organizations need to remain compliant with all financial regulations. The government lays down various rules regarding conducting financial transactions and maintaining records. These must be followed strictly to avoid penalties. Enterprises must perform all transactions following statutory regulations. All organizations must also maintain a record of their financial dealings promptly. Government agencies can inspect these records, hence, they must contain all necessary information.

The financial department is responsible for ensuring strict compliance with all regulations. They must know the latest laws in this regard and enforce them in the firm. Maintaining accounts and books is also part of financial management. It is not just helpful in abiding by the law but also for a company's future use. Companies can also use such records for resolving disputes with any external entities. Those attending a financial management course know that up-to-date accounts help in calculating and paying taxes promptly.

Facilitates Better Access To Finance

All companies need money to run. This could be needed at the start of a company and during the course of its operation. There are various ways in which a company can get funds for its functioning. But not all sources are viable because some may be too expensive. There are other sources that may force the owners to lose their control, at least partially. The most beneficial source of funds will be different for different companies.

Finding the right source of funds is one of the prominent roles of financial management. Financial managers are regularly in touch with the market to determine the cost of funds and where it is available cheaply. These experts also know the kind of finance they must source for different types of company activities. Finance courses also teach students to prepare a business plan that can convince lenders to finance a company.

Helps Control Expenses

There are various types of expenses for every organization. These could be fixed expenses like salaries and rents. There can also be variable costs for different utilities that the company uses. Apart from this, a company must purchase raw materials for the production of goods. All these expenses must be met if the company has to continue its operations. Even if the costs remain constant, the same cannot be said about income. It can be affected by various internal and external factors.

Financial managers must ensure that the company can meet all its expenses. Delaying payments can result in penalties. Sometimes the expenses are planned without giving much thought to earnings. Budgeting is a critical role that financial managers play in a company. They will constantly assess the expected income and plan to spend on that basis. Excess spending can cost the company money by way of interest. Aspirants to a financial job can learn budgeting at the financial management course conducted by reputed institutions.

Forecasting Risk And Mitigating Them

Risks are a part of life. This is even more so for a commercial establishment. It must face a variety of dangers that come due to internal and external factors. A sudden change in business rules can reduce a company's earnings. The entry of a competitor will reduce sales and affect revenues. There are also unpredictable natural calamities that can minimize business. An epidemic like what we see presently can also affect normal operations. Companies must prepare for all these.

Predicting and managing risks is a significant role for finance managers. These experts are constantly looking out for dangers lurking around the corner to ensure that the firm is not affected by them. Certain risks can be predicted, whereas finance managers cannot foresee various others. Companies must have ways to overcome all types of threats. Finance managers use advanced analytics to know the risks in advance and take adequate measures to mitigate their effect. The financial risk management course offered on Talentedge teaches how to manage and mitigate risks.

Measures The Success Of A Company

Success is what every company aims at. Looking at the money earned is the best way to assess a company's performance. Such an assessment helps to know if the business is viable and if there are any prospects for growth. Understanding the performance also allows a company to change its ways if there can be more earnings. When there is more earning, the company's shareholders are happy, and it can expect more investment for expansion and development.

Financial management helps to assess the performance of a firm properly. Finance managers use various parameters to see how well their organization has done for a specific period. They also make comparisons between similar periods every year. This will help them know whether there is any improvement in sales and profits. A study is also made about how the enterprise has functioned in comparison with competitors. Finance courses teach different ways to analyze a company's performance.

Identify And Improve Weak Areas

It is not just a company's total assessment that financial managers do. They also look at different areas in a firm that are doing well or badly. There are various departments and regions in an organization, and each one of them contributes to its profitability. The finance department looks at each of these and finds out if any units affect the organization's overall performance. Such identification is essential for improving profits.

A company's revenues come from selling products. But not all products bring the same amount of earnings. It is necessary to see if there are any items that are losing money instead of getting profits. Financial managers will not only identify these areas but also offer solutions to improve them. The assessment and the solutions are submitted to the top management for taking necessary action. Aspirants to a job in this department must attend the financial management course to contribute to a company's success.

Ensuring Returns From Marketing Activities

Marketing is an activity that companies cannot do without. Without marketing, it is not possible for them to sell the products or services they produce. But marketing doesn't come cheap. It is an activity that sucks a lot of money.

In many cases, even experts cannot accurately gauge the returns on the amount spent as the results may be seen only after a period. Companies must take utmost care when spending on publicity and advertisement.

Monitoring the marketing activities and assessing their effect is a major responsibility of the financial department. The money experts must keep track of all expenses on different kinds of publicity. They must see which ones are bringing good results. It is also necessary to see which campaigns are more effective during certain periods of the year. Such assessment is very useful for reducing marketing expenses and improving returns. The financial risk management course teaches students about market risks and how to avoid them.

Fuels Growth And Expansion

No business wants to remain where it is. One of the main objectives of all companies is to expand and grow. This can be done in various ways. Some companies may choose to add more regions for their operations. Other firms may find introducing new products a good way to expand. Building new factories and increasing production capacity is also a way to improve business. But who will decide which method is most suitable for a firm?

Financial experts must analyze various growth methods and find out which one is apt for an organization. They must see which course of action can bring in the best returns for the money that is being spent. Every growth activity needs funds, and getting them is not easy. Financial managers must search for funds to fuel growth. They will look at various finance options and decide which one is most beneficial for the firm. One can learn from a finance management course which growth path brings maximum profits.

Helps Enhance Staff Strength

Isn't staffing the job of the HR department? Aren't they the ones who must select the best candidates for the company? It is so amongst most cases. But it is necessary to find out which posts need to be filled immediately and which ones can wait. This decision is arrived at by analyzing who is bringing more returns on the salary they earn. Such analysis helps to inform the HR department where they must increase staff strength to get more revenues.

The financial department performs an analysis of the performance of every member. This helps to know whether all employees are contributing equally to the company's profits. Once this is known, it is easy to find out where the company must employ more people to get better results. Monitoring the performance of staff members also helps in deciding the people who must be rewarded with salary hikes or promotions. Those who wish to join the finance department must learn about this at the finance courses conducted by various institutions.

Helps in Financial Planning

Assists in acquiring and managing funds

Helps in funds allocation

Provides insights to make critical financial decisions

Cuts down financial costs

Improves profitability and value of the organization

Makes employees aware of financial savings and investments

Helps in planning the future growth of the organization

Helps in achieving economic stability

Availability of sufficient funds

Maintaining a balance between income and expenses to ensure financial stability

Ensuring efficient and high ROI

Creating and executing business growth and expansion plans

Safeguarding the organization against market uncertainties through ensuring buffer funds

Importance to Organizations

□ Business organizations – Financial management is important to all types of business organization i.e., Small size, medium size or a large size organization. As the size grows, financial decisions become more and more complex as the amount involves also is large.

□ Charitable organization / Non-profit organization / Trust – In all those organizations, finance is a crucial aspect to be managed. A finance manager must concentrate more on collection of donations/ revenues etc. and has to ensure that every rupee spent is justified and is towards achieving Goals of organization.

□ Government / Govt. or public sector undertaking – In central/ state Govt, finance is a key/ important portfolio generally given to most capable or competent person. Preparation of budget, monitoring capital /revenue receipt and expenditure are key functions to be performed by the person in charge of finance. Similarly, in a Govt or public sector organization, financial controller or Chief finance officer must play a key role in performing/ taking all three financial decisions i.e., raising of funds, investment of funds and distributing funds.

□ Other organizations- In all other organizations or even in a family finance is a key area to be looked in to seriously by a competent person so that things do not go out of gear.

Importance to all Stake holders: -

□ Shareholders – Shareholders are interested in getting optimum dividend and maximizing their wealth which is basic objective of financial management.

□ Investors / creditors – these stake holders are interested in safety of their funds, timely repayment of the principal amount as well as interest on the same. All these aspect are to be ensured by the person managing funds/ finance.

□ Employees – They are interested in getting timely payment of their salary/ wages, bonus, incentives and their retirement benefits which are possible only if funds are managed properly and organization is working in profit.

□ Customers – They are interested in quality products at reasonable rates which is possible only through efficient management of organization including management of funds.

□ Public –Public at large is interested in general public welfare activities under corporate social responsibility and this aspect is possible only when organization earns adequate profit.

□ Government – Govt is interested in timely payment of taxes and other revenues from business world where again efficient finance manager has a definite role to play.

□ Management – Management is interested in overall image building, increase in the market share, optimizing shareholders wealth and profit and all these aspects greatly depends upon efficient management of financial resources.

1.6 OBJECTIVES OF FINANCIAL MANAGEMENT

Just like we all used to save money during our student life and be mindful about it while spending, organisations need to manage the finances effectively to scale and be successful. Here are some crucial objectives that organisations need to be kept in mind:

Certain specific and highly impactful objectives that financial managers aim to attain are:

1. Profit Maximisation

One of the most critical objectives is to ensure maximum profits in both the short and long run. A finance manager should consider this on top of his priority list and ensure that outcomes related to business performance are profitable.

2. Proper Mobilization

Just like you do not waste your savings all in one go to buy something and have nothing in hand, managing funds is crucial for any business. Financial managers need to evaluate and make vital decisions on the allocation and utilization of various funds. Whether it is shares, products, or investing in small companies, all the critical factors must be considered before investing.

3. High Efficiency

Financial Management tries to increase the efficiency of all the departments of the company. Proper distribution of finances or funds to all the departments considering the resources and work involved increases the organization's efficiency as a whole.

4. Reduce Risks

There are always risks involved in running a business, especially with the uncertainties that come along. Financial managers need to avoid high-risk situations/opportunities and take calculated risks under the consultation of experienced leaders and subject matter experts.

5. Business Survival

Amidst the competitive world, the survival of the business is a primary goal. Darwin said, "Survival of the fittest" in Biology, which is applicable for companies. Companies need to make decisions intuitively. They can always take the help of expert consultants if needed.

6. Balanced Structure

Like they say – Balance is key to everything. This applies not just in life but to businesses too. Financial managers need to prepare a robust capital structure considering all capital sources. This balance is vital for liquidity, flexibility, economy, and stability.

Assessing Capital Needs

Financial managers need to evaluate factors such as cost of current and fixed assets, cost of marketing, need for buffer capital, long-term operation and human resources cost etc. Successful businesses have clearly defined short-term and long-term financial requirement projections in place.

Determination of Capital Structure

A company's capital structure is the framework that determines decisions such as debt-equity ratio in the short as well as long term.

Creation of Effective Financial Policies

There is a need to frame efficient financial policies that govern cash control, the lending and borrowing processes and so on.

Resource Optimization

Great financial managers are able to navigate through different scenarios by making optimum use of the available financial resources. This would reduce the cash burn and increase the cash churn to generate maximum ROI.

Functions of Financial Managers and Advisors

To achieve these objectives, financial managers and advisors must perform certain functions. These include:

Fundraising

For any business to grow confidently and have a good market reputation, an adequate amount of cash and liquidity is critical. Therefore, businesses raise funds by equity or debt financing. Financial managers take decisions on maintaining a healthy balance between debt and equity to ensure that the company's financial health is not impacted.

Fund Allocation

Smart fund allocation is as critical to a business's financial health as fund-raising itself. The funds that a company has must be allocated in the best way possible after due diligence on:

Business size and growth potential

Whether the assets are short-term or long-term before spending on them

Mode of fundraising

Profit Planning

Unless it is a social organization, earning more profits would be among any business's primary goals. The profits a company makes determine its financial health and future growth. Therefore, adequate usage of the money generated as profit is needed. Whether they have to be ploughed back to acquire assets and expand coverage, or to be spent on marketing, acquiring other businesses or invested to act as a buffer resource, all these considerations are made by financial leaders.

Understanding Capital Markets

A company's shares are publicly traded on stock exchanges, and the transactions as well as the change in a listed company's market capitalization is a constant phenomenon. Good financial managers have to be well-versed with the capital market dynamics, and the risks associated. Whether dividends are to be given to the shareholders when the business generates profits or is reinvested into the business, is one of the crucial decisions that can impact shareholders' sentiments and the company's goodwill.

Commercial Banking Sector

Banks are a key enabler of financial support to individuals as well as businesses. From maintaining savings and current accounts, debit, and credit cards, to offering personal, home, education or business loans, the banks are a key to everyone's financial journey. The banking jobs are respected, and offer good salaries and fixed working hours. Nowadays, having technological expertise alongside an MBA degree can make a person highly employable in this arena.

Compliance and Internal Financial Management

Companies also employ managers and financial administrators to handle various procedures and regulations such as law adherence, ethical operations, compliance to industry standards, and reputation management etc.

1.7 FUNCTIONS OF FINANCIAL MANAGEMENT

Financial management refers to the application of management principles to financial resources to better manage them. It is a management skill to plan, organize, direct and control the financial activities of the enterprise. As per the definition, it deals with the procurement of funds and the effective utilization in business.

1. Financial Planning and Forecasting

As a part of financial management function, financial managers have to do financial planning. It is the estimation of the value of the set of variables at some point in the future. It is a blueprint of what a firm should do in the future. To do so, financial managers need to take various factors into account.

These include a sales forecast, pro forma statements, asset requirements, economic assumptions and mode of financing investments. Financial planning can be done for a budget, expenditure and to save future income.

If financial planning is related to investing, then the capital must be allocated to projects for assets that can produce income. This may include starting a new business or launching a new product.

Explore finance manager courses

Financial forecasting refers to the annual projection of income as well as expenses of the company. It involves the estimation of cash needs and making decisions for raising capital through different sources of funds.

The objective of financial planning include:

Identifying capital requirements: While determining these requirements, a business must look at the duration. Whether you need capital for the long term or the short term. Capital needs will depend on factors such as the cost of current and fixed assets, long-term planning and promotional expenses.

Determining capital structure: Capital structure is the composition of capital. This includes the relative kind and proportion of capital needed in the business.

Framing financial policies: As a part of financial planning, policies must be framed for cash control, lending, borrowings, etc.

Check out financial planning certifications

1. Cash Management

One of the functions of financial management is cash management. Decisions must be made in regards to what is to be done with the cash. Financial managers need to decide if they want to pay back to creditors, pay bills, meet current liabilities or invest in maintaining stock.

2. Estimating Capital Expenses

While estimating the capital expense, a company must keep the following points in mind:

Promotional expenses: It must be kept in mind that promotional expenses are incurred before any receipt. Promoters must be ready to bear these expenses since promoting a company is an expensive task. This stage requires investment and for that financial managers must be ready.

Cost of current assets: While estimating capital expenses, expenses on current assets must be included. These are the day to day expenses that are not fixed.

Cost of fixed assets: Machinery, land, and buildings are all part of fixed assets whose expenses can be calculated quite accurately. Their valuation helps in the accurate estimation of the capital requirements. Inflationary economic conditions and escalation features guide financial managers to do accurate valuation of fixed assets. This will be extremely important for estimating total capital requirements.

3. Estimating Capital Expenses

While estimating the capital expense, a company must keep the following points in mind:

Promotional expenses: It must be kept in mind that promotional expenses are incurred before any receipt. Promoters must be ready to bear these expenses since promoting a company is an expensive task. This stage requires investment and for that financial managers must be ready.

Cost of current assets: While estimating capital expenses, expenses on current assets must be included. These are the day to day expenses that are not fixed.
Cost of fixed assets: Machinery, land, and buildings are all part of fixed assets whose expenses can be calculated quite accurately. Their valuation helps in the accurate estimation of the capital requirements.

Inflationary economic conditions and escalation features guide financial managers to do accurate valuation of fixed assets. This will be extremely important for estimating total capital requirements.

4. Procurement of Funds

One of the functions of financial management includes the procurement of funds to run the business. This includes deciding on the sources of funds. The company may have different sources to acquire capital. The sources of procuring funds differ according to the period of financing. These can include:

- gaining capital in lieu of equity
- releasing IPO to raise money from public
- taking loans from financial institutions

5. Investment of Funds

While procuring funds is difficult, it is important to wisely invest these funds so that profit can be maximised. Proper calculation of the risk and ROI is crucial to prevent loss of funds. For this purpose, different tools such as net present value, internal rate of return and portfolio analysis are important. The investment decisions must be guided by 3 important principles viz. profitability, safety and liquidity.

6. Surplus Disposal

After investment and expenditure, the financial manager must decide on what is to be done with the surplus profit. They have to decide if the surplus profit should be reinvested in the business as retained profits or distributed as dividends. They can identify the rate of dividends and benefits like bonuses.

These are the major functions of financial management. However, at the micro-level, there are many functions of this type of management. The scope of financial management is immense and is not just limited to the above-given functions.

1.8 FINANCE GOALS

Financial management is a profession in corporate finance that involves directing the financial situation of a company by managing the budget, producing reports and strategizing for the future. A financial manager's everyday activities depend on the size of the organization and how much data they have to maintain and process.

Common goals of financial management

The goal of a financial manager is to keep the company or organization solvent and successful. There are several elements to this goal:

Maximize current value

The financial manager or managerial team works to maintain the highest value possible for the company's assets. In a publicly owned company, this means maintaining the highest possible value per stock in the company.

Maintain growth

The financial manager aims to increase the company's value over time. They help to achieve this by producing and implementing financial plans.

Maximize profit

Maximizing profit may involve locating opportunities to invest, acquire a competitor or develop new products. This can involve communications with other divisions such as marketing or research and development to create efficient strategies.

Minimize cost

As they monitor spending, a financial manager looks for opportunities to minimize the costs of doing business, such as overhead, manufacturing and distribution costs. They then communicate these potential changes to the respective management teams.

Avoid bankruptcy

Finally, the financial manager aims to keep the company solvent, meaning it has enough money to continue operations and avoid bankruptcy.

Components of financial management

These are the three areas of financial management that help financial managers fulfill their goals:

Controlling

The financial manager maintains or creates profitability by controlling the organization's money, keeping up with expenses and making any necessary adjustments to how the company is spending money. They track these changes and adjustments relative to projected outcomes so that the company moves toward achieving its goals and long-term profitability.

Reporting

The financial manager aims to maintain the company's compliance with legal reporting requirements. They do this by creating regular, accurate financial reports and staying knowledgeable about all relevant regulations. This is important because businesses report their finances to the government for taxation and public record purposes, and reporting these things accurately helps the business maintain a positive image.

Planning

To keep the company profitable, the financial manager makes projections and models for the financial future of the company. Their strategy can include long-term money management and investment, plans for expansion or strategic choices in other parts of the company that have a financial impact.

1.9 FINANCIAL MANAGER DUTIES

The specific duties of a financial management position depend on the size of the company. In a smaller company, one person might be responsible for most or all of the financial management tasks. In a larger company, several positions or an entire department accomplish these tasks together. Financial management duties include:

Tracking money

To keep a company solvent, a financial manager has to track how much money it has at any given time. Financial managers complete these tasks to track a company's assets:

Reviewing statements: Reviewing banking activity, statements and reports allows the financial manager to spot discrepancies.

Managing credit: As a company extends or utilizes credit, the financial manager keeps track of these transactions.

Creating improvement in budget areas: When the financial manager sees where costs are exceeding expectations or simply where there could be a financial improvement, they communicate and implement these changes.

Assessing financial performance: Financial managers measure how the company is performing relative to budgets and projections.

Managing documents

Financial management involves the creation and maintenance of many documents, which includes:

Developing company's master budget: Also called the budget variance analysis, a company's master budget brings the company's expenses and profits together.

Writing reports: The financial manager also creates other reports as needed, tracking the company's performance in broad or detailed scopes.

Utilizing technology: Since automation assists with record-keeping, the financial manager knows how to use databases and software to track funds and interpret large amounts of information.

Establishing compliance

The financial manager must know and bring the company into compliance with all relevant financial regulations. Here are some tasks that might include:

Managing payroll: The financial team maintains the payroll, which may include some time-tracking responsibilities at smaller institutions. Depending on the company's size, the financial manager may also report the payroll information to the Equal Employment Opportunity Commission.

Filing taxes: The financial team manages the filing of taxes for the organization, including federal taxes, state taxes, sales taxes, employment taxes and excise taxes.

Maintaining compliance with public reporting regulations: The Sarbanes-Oxley Act governs the reporting of publicly-held firms' finances. It requires that the company file annual reports publicly, that an outside auditor review the company's internal financial controls and that management sign off on these statements and be accountable for their accuracy. In a publicly-traded company, the financial management team is responsible for these reports.

Maintaining industry-specific compliance: In addition to any general regulations and reports, a financial manager must also keep track of any regulations that are specific to the agency. Non-profit organizations that provide healthcare or contract with a government usually have specific regulations to follow.

Creating strategies

The financial management team works to strategize and project the financial future of the company. This process can involve:

Developing and interpreting financial models: The financial team builds specific models to show how the business can operate in the future. They can use these models to deliver progress updates within the company.

Creating specific plans: With models and reports in mind, the financial manager creates plans for dealing with deficits or any differences between projections and actual costs.

Analyzing risk: With financial experience and knowledge of the company's history, the financial manager analyzes the risk of potential activities and may participate in pricing and negotiation for new contracts.

Identifying opportunities: The financial manager keeps up to date with industry trends, trades and standards. With this knowledge, it's possible to identify investment opportunities, potential mergers and acquisitions that might help the company.

Maintaining relationships

The managerial component of being a financial manager extends to managing personnel. Here are some of a financial manager's interpersonal tasks:

Supervising other financial employees: At large companies with financial services departments, the financial management positions involve overseeing other financial and accounting professionals.

Maintaining professional relationships: Financial management requires the maintenance of good working relationships with others. This involves any executives in the company and other departments, particularly purchasing and production departments, but also extends to any other agencies or clients that the organization may work with.

1.10 SUMMARY

- In simple terms, financial management is the business function that deals with investing the available financial resources in a way that greater business success and return-on-investment (ROI) is achieved.
- Financial management professionals plan, organize and control all transactions in a business.
- They focus on sourcing the capital whether it is from the initial investment by the entrepreneur, debt financing, venture funding, public issue, or any other sources.
- Financial management professionals are also responsible for fund allocation in an optimized way to ensure greater financial stability and growth for the organization.
- Effective Financial management enables employees to contribute effectively and productively to the overall company direction and the accomplishment of the organization's goals and objectives.

1.11 KEYWORD

- **Investment Decisions :** An investment decision is a well-planned action that allocates financial resources to obtain the highest possible return.
- **Financial Decision -** Financing decisions refer to the decisions that companies need to take regarding what proportion of equity and debt capital to have in their capital structure.
- **Financial Planning:** Financial Planning is a way of calculating the capital required by an organization and adequately allocating resources accordingly
- **Dividend Decisions:** Financial managers consider various factors before deciding how much of the profit earned must be paid to shareholders as dividend

- **Capital Expenses:** Capital expenditures (CapEx) are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology

1.12 LEARNING ACTIVITY

1. Elaborate the role of financial management in successful working of an organisation

2. As a financial manager what are one's role and responsibilities in organisation

1.13 UNIT END QUESTIONS

A. Descriptive Questions

Short Questions

1. Define Financial management?
2. Explain the scope of Financial management
3. Identify and discuss Financial management functions?
4. Elaborate about the nature of Financial management and its relevance in present scenario.
5. What are the criteria that determine whether an organization's Financial management practices are effective?

Long Questions

1. Describe the element of financial management
2. Explain the importance of financial management
3. Explain the various financial goals
4. Elaborate on roles and duties of financial manager
5. Explain the consequences of ineffective financial management activities

B. Multiple Choice Questions

1. _____ is that managerial activity which is concerned with the planning and controlling of the firm's financial resources.

- a. Financial management
- b. Marketing management
- c. Investment management
- d. Sales Management

2. _____ is a pivotal activity to ensure the business is working to meet its objectives. It is more about setting proper KIPs rather than reducing costs.

- a. Financial Planning
- b. Financial Decisions
- c. Financial Control
- d. Financial assessment

3. A company's _____ is the framework that determines decisions such as debt-equity ratio in the short as well as long term.

- a. Balance sheet
- a. Capital structure
- b. Cash flow statement
- c. Profit and loss account

4. The financial manager aims to maintain the company's compliance with legal reporting requirements under _____ -

- a. Financial Control
- b. Financial Reporting
- c. Financial Decision making
- d. Financial analysis

5. Under _____ financial management's main focus was on procuring resources that are either short- or long-term, from financial institutions like banks.

- a. Current approach
- b. Financial analysis
- c. Modern approach
- d. Traditional Approach

Answers

1-a, 2-c, 3-b, 4-c, 5-d

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