ABM 302

Lesson 1: Financial management: Meaning, Objectives, Scope & significance

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Meaning of Financial Management

Financial Management entails the process of planning, organizing, monitoring and also controlling the financial resources of an organization. The idea for doing such is to be able to achieve the vision or goals of the company at the stipulated time frame.

Thus, Financial Management is concerned with

(a) Anticipating financial needs,

(b) Acquiring financial resources,

(c) Allocating funds in business,

(d) Assessing risk in business, and

(e) Effective utilization of resources.

DEFINITION OF FINANCIAL MANAGEMENT

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

Joseph and Massie

"Financial management is the activity concerned with planning, raising, controlling and administering of funds used in the business."

Guthman and Dougal

Nature of Financial Management

- Financial management is a continuous process and an indispensable organ of management.
- It is an integral part/ focal point of business decision-making process.
- It is helpful to top management in projecting trends and taking effective decisions.
- It helps in performance measurement.
- It has a wide scope, i.e. concerned with diverse activities of business.

OBJECTIVES OF FINANCIAL MANAGEMENT

- Optimal capitalization and sound capital structure
- Effective utilisation of financial resources
- Safety of investment
- Maximization of profit and profitability
- Maintenance of liquidity and solvancy
- Maximization of return on equity
- Maximization of wealth, value of firm, net worth, and NAV of equity
- Financial discipline

Functional areas of Financial management

- Estimation of financial requirement
  - Cost approach, - Earning yield approach
- Determining sources of funds
- Optimal capital structure
- Formulation of financial policies and systems
- Profit planning and assessment
- Capital budgeting and investment decisions
- Management of assets
- Management of working capital and liquidity
- Management of profit and dividend decisions
- Financial analysis and control

Scope of Financial Management

Financial Management is a sub-system in an organization which has to coordinate with other subsystems such as production, marketing etc. The scope of financial management includes:

- Financial Management and Economics: Economic concepts of micro and macroeconomics are of great relevance in financial management.

  Micro economic concepts like demand and supply, cost theory, production theory etc. are very useful for any financial manager.

  In the same way, Macroeconomics concepts of inflation, per capita income, aggregate-demand, aggregate supply etc. are also useful for finance manager.
- Financial Management and Accounting: A finance manager has to make decisions about future. The historic accounting information and cost data is the base for future decisions.

SCOPE.......... CONTINUED

- Financial Management and Mathematics: Finance functions make use of statistical, mathematical and econometrics tools and techniques. These may include time value of money, correlation, regression analysis and financial modelling techniques.
- Financial Management and Marketing: Various marketing decisions, such as product, pricing, promotion, product mix, market segmenting, targeting and positioning, choice of distributional channels etc are taken in consultation with finance department.
- Financial Management and Human Resource: HR decisions about requirement, recruitment, selection, training & development of manpower are based on allocated funds.
- Financial Management and Production Management: Product planning and engagement of factors of productions is based on cost benefit analysis carried out by finance department.

SIGNIFICANCE OF FINANCIAL MANAGEMENT

- Helps organisations in financial planning and Administration.
- Focal Point of Decision-Making; it Coordinates various functional activities of the organization.
- Make funds available from right source, right price and at the right time.
- It ensures that procurement of funds does not affect right of management as well as control over affairs of the company.
- Helps in purposeful allocation of financial resource.
- It ensures profitability, liquidity and solvency of the business.
- Helps in maximizing return on investment and the value of firm.
- Ensures growth, expansion, diversification and long run survival of business.
- Helps in critical financial decisions and trend projection.

Thank you…