Full Length Article

**ABSTRACT:** Financial management refers to the efficient and effective management of money (Funds) in such a manner as to accomplish the objectives of the organization. It is the Specialized function directly associated with the top management. Financial management typically applies to an organization or company's financial strategy, while personal finance or financial management refers to an individual's management strategy. It includes how to raise the capital and how to allocate capital, i.e., Capital budgeting. Not only for long-term budgeting, but also how to allocate the short-term resources like current liabilities. It also deals with the dividend policies of the Shareholders. Essential Concepts in Finance presents chapters on accounting statements and their interpretation, forecasting, risk and return, the time value of money, and security valuation. Capital Budgeting and Business Valuation contains chapters on measuring a firm's cost of capital, capital budgeting decision methods, incremental cash flow estimation, and business valuation.

**1 Introduction**

Financial Management is about preparing, directing and managing the money activities of a company such as buying, selling and using money to its best results to maximise wealth or produce best value for money. It is basically applying general management concepts to the cash of the company. Financial Management can also be defined as – The management of the finances of a business/organisation in order to achieve financial objectives.

“Financial management is concerned with raising financial resources and their effective utilisation towards achieving the organisational goals” Dr. S. N. Maheshwari

“Financial management is the process of putting the available funds to the best advantage from the long term point of view of business objectives” Richard A. Brealey

It is crucial for both public and private sector organisations.

Taking a commercial business as the most common organisational structure, the key objectives of financial management would be to:

- Create wealth for the business
- Generate cash, and
- Provide an adequate return on investment bearing in mind the risks that the business is taking and the resources invested

**DEFINITION:**

“Financial management is the activity concerned with planning, raising, controlling and administering of funds used in the business.” – Guthman and Dougal

**Meaning of Financial Management**

Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise. It means applying general management principles to financial resources of the enterprise.

**Scope/Elements**

1. Investment decisions include investment in fixed assets (called as capital budgeting). Investment in current assets are also a part of investment decisions called as working capital decisions.
2. Financial decisions - They relate to the raising of finance from various resources which will depend upon decision on type of source, period of financing, cost of financing and the returns thereby.
3. Dividend decision - The finance manager has to take decision with regards to the net profit distribution. Net profits are generally divided into two:
   a. Dividend for shareholders- Dividend and the rate of it has to be decided.
   b. Retained profits- Amount of retained profits has to be finalized which will
depend upon expansion and diversification plans of the enterprise.

Objectives of Financial Management
The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-
1. To ensure regular and adequate supply of funds to the concern.
2. To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
3. To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
4. To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
5. To plan a sound capital structure - There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.

Functions of Financial Management
1. **Estimation of capital requirements:** A finance manager has to make estimation with regards to capital requirements of the company. This will depend upon expected costs and profits and future programmes and policies of a concern. Estimations have to be made in an adequate manner which increases earning capacity of enterprise.
2. **Determination of capital composition:** Once the estimation have been made, the capital structure have to be decided. This involves short-term and long-term debt equity analysis. This will depend upon the proportion of equity capital a company is possessing and additional funds which have to be raised from outside parties.
3. **Choice of sources of funds:** For additional funds to be procured, a company has many choices like-
   a. Issue of shares and debentures
   b. Loans to be taken from banks and financial institutions
   c. Public deposits to be drawn like in form of bonds.

Choice of factor will depend on relative merits and demerits of each source and period of financing.
4. **Investment of funds:** The finance manager has to decide to allocate funds into profitable ventures so that there is safety on investment and regular returns is possible.
5. **Disposal of surplus:** The net profits decision have to be made by the finance manager. This can be done in two ways:
   a. Dividend declaration - It includes identifying the rate of dividends and other benefits like bonus.
   b. Retained profits - The volume has to be decided which will depend upon expansional, innovational, diversification plans of the company.
6. **Management of cash:** Finance manager has to make decisions with regards to cash management. Cash is required for many purposes like payment of wages and salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, maintenance of enough stock, purchase of raw materials, etc.
7. **Financial controls:** The finance manager has not only to plan, procure and utilize the funds but he also has to exercise control over finances. This can be done through many techniques like ratio analysis, financial forecasting, cost and profit control, etc.

There are three key elements to the process of financial management:

1. **Financial Planning**
   Management need to ensure that enough funding is available at the right time to meet the needs of the business. In the short term, funding may be needed to invest in equipment and stocks, pay employees and fund sales made on credit. In the medium and long term, funding may be required for significant additions to the productive capacity of the business or to make acquisitions. This links in with the financial decision making process and forecasting.

2. **Financial Control**
   Financial control is a critically important activity to help the business ensure that the business is meeting its objectives. Financial control addresses questions such as:

• Are assets being used efficiently?
• Are the businesses assets secure?
• Do management act in the best interest of shareholders and in accordance with business rules?

(3) Financial Decision-making
The key aspects of financial decision-making relate to investment, financing and dividends:
• Investments must be financed in some way - however there are always financing alternatives that can be considered. For example it is possible to raise finance from selling new shares, borrowing from banks or taking credit from suppliers. This is connected with the capital budget and forecasting when dealing with fixed assets and projects.
• Financial options – this is connected to the raising of finance from various sources like banks or financial investors, which will depend on the options of the type of source, period of financing, cost of financing and the net present returns generated.
• A key financing decision is whether profits earned by the business should be retained rather than distributed to shareholders via dividends. If dividends are too high, the business may be starved of funding to reinvest in growing revenues and profits further.

References:
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