BASICS OF FINANCIAL MANAGEMENT

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WHAT IS FINANCE ?

- FINANCE is the art & science of managing money”.
- The field of FINANCE refers to the concepts of time, money and risk and how they are interrelated.
- Financial services:- concerned with the design & delivery of advice & financial product to individuals, businesses & govt. within the areas of banking & related institutions, personal financial planning, investments, real estate, insurance…
- Financial management:- concerned with the duties of the financial manager in the business firm.

- “Financial management is about planning income and expenditure, and making decisions that will enable you to survive financially”.

* “Financial Management is concerned with that managerial decision that result in the acquisition & financing of long term & short term credits for firm”.

KEY FEATURES

* Complete audit trail & other controls
* Multifunctional mgt.
* Reporting & analysis tools
* Performance mgt. architect
* Industry standard tools

OBJECTIVES OF FINANCIAL MANAGEMENT

PROFIT MAXIMIZATION

WEALTH MAXIMIZATION

PROFIT MAXIMIZATION

- Actions that increase profits/EPS should be undertaken
- The investment, financing and dividend policy decisions of a firm should be oriented to the maximization of profits/EPS.
- PROFITABILITY

WEALTH MAXIMIZATION

- Value Maximization or Net Present Worth Maximization
- **Based on the concept of cash flows generated by the decision rather than accounting profit.**
- **Considers both the quantity and quality dimensions of benefits.**

TRADITIONAL APPROACH

MODERN APPROACH

<u>**SCOPE**</u>

TRADITIONAL APPROACH

* **CORPORATION FINANCE**
* **FINANCIAL MANAGEMENT**
* **Procurement of funds**
* **Institutional arrangement – financial institutions**
* **Financial instruments – capital markets**
* **Legal and accounting relationships**

- Emphasis on raising the funds only

- Concentrates mainly on financial administration of the joint stock companies

- Represents the episodic view of the finance function

- Emphasis on long term financial requirements

MODERN APPROACH

* Financial management – broad sense
* The finance function – acquisition of funds and their allocations
* What is the total volume of funds an enterprise should commit?
* What specific assets should an enterprise acquire?
* How should the funds required be financed?

IMPORTANCE OF FINANCIAL MANAGEMENT

- Reduced close cycles
- Easy implementation
- Compatibility with existing tools
- Independent module

Financing decision

TYPES OF FINANCIAL DECISION

Investment decision

Dividend decision

Liquidity decisions

ROLE OF FINANCIAL MANAGER

Raising of funds

Allocation of funds

Profit planning

Understanding capital markets

EMERGING ROLE OF FINANCIAL MANAGER IN INDIA

* Financial structure
* Foreign exchange management
* Investor communication
* Management control
* Investment planning

THANK YOU