FINANCIAL MANAGEMENT

Meaning & Definition

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- The term Financial Management consists of two words- ‘Financial’ and ‘Management’.
- Financial means the process of identifying, obtaining and allocating sources of money.
- Management is the process of planning, organizing, coordinating and controlling various resources for the accomplishment of organizational goal.
- Therefore Financial Management is the skillful and proper management of financial resources.

Definitions

- "Financial Management is concerned with the efficient use of an important economic resource, namely, Capital Funds".- ***Solomon***
- "Financial Management is the application of the planning and control functions of the finance functions".- ***Howard & Upton***
- "Financial Management is an area of financial decision making, harmonising, individual motives and enterprise goals".- ***Weston & Brigham***

Functions of Financial Management

- 1. Investment Decision:
- A. Capital Budgeting Decision
- B. Working Capital Decision
- 2. Financing Decision
- 3. Dividend Policy Decision
- 4. Liquidity Decision

Financial Goals in Financial Management

- 1. Profit Maximization

- Profit is one of the most significant measures for assessing the efficiency of any business or economic activity. Survival and growth of a business concern also depends on its profit earning capacity. Traditional theories like, profit maximization is the sole objective of a business concern.

- Profit maximization is related to the maximization of earnings per share of the firm.
- Increase in profitability is one of the foremost concerns of every business organisation and thus involves various procedures and methods to maximize profits.
- Profit is one of the benchmarks of operational efficiency, survival and well being of a business organization, as it reflects its business decisions and policies.
- The objective of profit maximization minimizes the risk and uncertainty factors in business decisions and operations.

- 2. Wealth Maximization:

- Shareholders being the true owners of the firm are entitled to the residual profit only. After meeting the commitment to all other stakeholders they get the remaining. Shareholders claim cannot precede that of any other stakeholder. Thus, by maximization of residual as the objective of the firm, it can safely be stated that all preceding commitments have been adequately satisfied. The wealth maximization as a goal is in congruence with the objective of the varied stakeholders.

- No firm can bring about sustained increase in the wealth of its owners without taking care of the interest of its other stakeholders.
- A shareholders current wealth in the firm is the product of the number of shares owned, multiplied with the current stock price per share.
- Shareholders current wealth in a firm =
- (No. of share owned) X (Current stock price per share)
- $\mathbf{W_0 = NP_0}$

- Given the number of shares that the stockholders owns, the higher the stock price per share the greater will be the stockholders wealth. This objective helps in increasing the value of shares in the market.
- However, the maximization of the market price of the shares should be in the long run.
- While pursuing the objective of wealth maximization, all efforts must be put in for maximizing the current present value of any particular course of action.

- Every financial decision should be based on cost-benefit analysis.
- If the benefit is more than the cost , the decision will help in maximization of wealth.
- On the other hand, if cost is more than the benefit the decision will not be serving the purpose of maximizing wealth.

Thank you class…