Introduction to Financial management

Financial management is the blood of any organization. However like all other resources finance is also limited. So, it is necessary for any business to make effective use of its resources, so that maximum benefit can be gain from the limited resources.

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

Meaning:

Financial management as its name says that management of finance in that way so that a firm can earn maximum with lesser cost. In other words finance should be invested in such a manner which gives maximum return with lesser cost or its cost is lower than its return. In brief financial management-

- Reduces the cost of finance
- Availabity of sufficient funds
- Manage all financial activities from planning to controlling i.e from procurement of finanace to its utilization of funds.

Objective of financial management:

Financial management is the core area of any business. The basic objective of financial management is to provide maximum return on investment made by its owners.

Maximum return to its owner is known as wealth maximization. Wealth maximization is possible only when intial invested capital increase gradually over a period of time.it can be calculated as

Shareholder's wealth =number of shares held x market price per share

Profit Maximization:

profit maximization is considered to be the main objective of a firm. Profit ensures the growth of a organization. A business works only for the profit. The finance manager should employ funds in such a manner so that a firm can earn maximum profit both in the long run and in the short run.

Wealth maximization:

It means to maximize the wealth of the shareholders. So finance manager tries to increase the market value of the shares, and also tries to give maximum dividend to the shareholders. Performance of an organization is directly related to the market value of shares.

Types of financial Decisions:

Investment decisions:

Investment decisions means how a firm should employ its fund in different assets so that it can earn maximum profit. Investment can be made in both short term and long term assets.

Investment made for long term is known as capital budgeting decisions. And short term investment is termed as working capital decisions.long term investment decisions involves large amount of sum which is irreversible except at a huge cost. Working capital decisions effects the day to day working of a business.

Financing decisions:

Financing decision is concerned with how the finance is to be raised from various sources. It is the decision of a finace manger how he raises the funds from the long term sources like, equityshares, preference shares, debentures, bank loan etc. while raising funds from different sources he tries to minimize the cost of raising funds. He chooses that option where the cost of raising fund is minimum.

Dividend decision:

Dividend decision is the decision of fiancé manager where he decides what amount of profit is to be distributed among the shareholders of its organization. what amount of profit is t be kept for the growth of the organization. It is the very crucial decision of finance manager if all amount of the profit is distributed among the shareholders; it maximizes the wealth of shareholders. if all profit is kept it will improve the efficiency of the organization. So it is the decision of finance manager what amount is to be kept for firm and what is to be distributed.

References:

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Chandra,p. Financial Management-Theory and Practices,Tata McGraw Hill