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Financial Management - Meaning, Objectives and Functions

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

Investment decisions includes investment in fixed assets (called as capital budgeting). Investment in current assets are also a part of investment decisions called as working capital decisions.
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.
Dividend decision - The finance manager has to take decision with regards to the net profit distribution. Net profits are generally divided into two:
Dividend for shareholders- Dividend and the rate of it has to be decided.
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-To ensure regular and adequate supply of funds to the concern.
To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
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

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 programs and policies of a concern. Estimations have to be made in an adequate manner which increases earning capacity of enterprise.
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.
Choice of sources of funds: For additional funds to be procured, a company has many choices like-Issue of shares and debentures Loans to be taken from banks and financial institutions 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.

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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.

Disposal of surplus: The net profits decision have to be made by the finance manager.

This can be done in two ways:

Dividend declaration - It includes identifying the rate of dividends and other benefits like bonus.

Retained profits - The volume has to be decided which will depend upon expansional, innovational, diversification plans of the company.

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, maintainance of enough stock, purchase of raw materials, etc.

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.

Sincerely,

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