

A PAPER ON “FINANCIAL MANAGEMENT”

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ABSTRACT

Finance is the most predominant Artifact, by which the regime of every citizen is hinged on... Let us imagine that there is no money? How these civilized days do goes? It is most resilient for us to make up with present materialistic days. Businesses run on money, and business finance guides you to make shrewd and prudent decisions about cash flow and longer-term funding strategies. As you develop skills and strategies for using the funds you have and for accessing additional capital when needed, you'll improve your company's profitability and increase your potential for leveraging new opportunities. Financial accounting is the process of preparing financial statements that companies' use to show their financial performance and position to people outside the company, Including investors, creditors, suppliers, and customers. This is one of the most important distinctions from managerial accounting, which by contrast, involves preparing detailed reports and forecasts for managers inside the company.

Most companies put together quarterly and annual financial statements, which they make available to shareholders and the investing public. There are four basic financial statements used in the corporate world to show a company's financial performance:

The **income statement** (also called the profit and loss statement) covers a specific period of time (such as a quarter or a year).

On an income statement, $\text{Revenues} - \text{Expenses} = \text{Net Income}$.

In accordance with the Generally Accepted Accounting Principles (GAAP), revenue is always recorded in the period of the sale of the goods and services, which may not be the same period when cash is actually received.

The **balance sheet** is a statement of assets and liabilities at the end of an accounting period. In other words, the balance sheet is a financial snapshot at a specific point in time.

On a balance sheet, $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$.

Stockholders' equity is the amount of financing provided by operations (retained earnings not distributed to stockholders) and by stockholders who reinvest through contributed capital.

The **cash flow statement** shows the actual flow of cash into and out of a company over a specific period of time, in contrast to the net income on the income statement, which is a non-cash number. A cash flow statement shows cash flows from operating activities, investing activities, and financing activities.

The **statement of retained earnings** covers a specific period of time and shows the dividends paid from earnings to shareholders and the earnings kept by the company.

Key words: Finance, Financial accounting, The income statement, The balance sheet, The cash flow statement, The statement of retained earnings

INTRODUCTION

Financial Management

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. The significance of this function is not seen in the 'Line' but also in the capacity of 'Staff' in overall of a company.

Financial management typically applies to an organization or company's financial strategy, while personal finance or financial life 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 share holders.

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.

DEFINITION OF FINANCIAL MANAGEMENT

Financial management is an integral part of overall management. It is concerned with the duties of the financial managers in the business firm. The term financial management has been defined by Solomon, "It is concerned with the efficient use of an important economic resource namely, capital funds". The most popular and acceptable definition of financial management as given by S.C. Kuchal is that "Financial Management deals with procurement of funds and their effective utilization in the business".

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-

- I. To ensure regular and adequate supply of funds to the concern.
- II. To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
- III. To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
- IV. To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
- V. 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.
- **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.

- [1] **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.
- [2] **Disposal of surplus:** The net profits decision have to be made by the finance manager. This can be done in two ways:
- [3] **Dividend declaration** - It includes identifying the rate of dividends and other benefits like bonus.
- [4] **Retained profits** - The volume has to be decided which will depend upon expansional, innovational, diversification plans of the company.
- [5] **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.
- [6] **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.

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