

# FINANCIAL MANAGEMENT

Finance may be defined as the art and science of managing money. It includes financial service and financial instruments. Finance also is referred as the provision of money at the time when it is needed. Finance function is the procurement of funds and their effective utilization in business concerns. According to **Khan and Jain**, "Finance is the art and science of managing money".

Finance can be classified into two major parts:

1. Public Finance
2. Private Finance

## DEFINITION OF FINANCIAL MANAGEMENT:-

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".

Thus, Financial Management is mainly concerned with the effective funds management in the business.

## OBJECTIVES OF FINANCIAL MANAGEMENT:-

Objectives of Financial Management may be broadly divided into two parts such as:

1. Profit maximization
2. Wealth maximization.

### Profit Maximization

Main aim of any kind of economic activity is earning profit. A business concern is also functioning mainly for the purpose of earning profit. Profit is the measuring techniques to understand the business efficiency of the concern. Profit maximization is also the traditional and narrow approach, which aims at, maximizes the profit of the concern.

Profit maximization consists of the following important features:-

1. Profit maximization is also called as cashing per share maximization. It leads to maximize the business operation for profit maximization.
2. Ultimate aim of the business concern is earning profit, hence, it considers all the possible ways to increase the profitability of the concern.
3. Profit is the parameter of measuring the efficiency of the business concern. So it shows the entire position of the business concern.
4. Profit maximization objectives help to reduce the risk of the business.

## **Wealth Maximization**

Wealth maximization is one of the modern approaches, which involves latest innovations and improvements in the field of the business concern. The term wealth means shareholder wealth or the wealth of the persons those who are involved in the business concern.

Wealth maximization is also known as value maximization or net present worth maximization. This objective is an universally accepted concept in the field of business.

1. Wealth maximization is superior to the profit maximization because the main aim of the business concern under this concept is to improve the value or wealth of the shareholders.
2. Wealth maximization considers both time and risk of the business concern.
3. Wealth maximization provides efficient allocation of resources.

## **FUNCTIONS OF FINANCE MANAGER**

At present, every business concern concentrates more on the field of finance because, it is a very emerging part which reflects the entire operational and profit ability position of the concern. Deciding the proper financial function is the essential and ultimate goal of the business organization. Finance manager is one of the important role players in the field of finance function.

He must have entire knowledge in the area of accounting, finance, economics and management. His position is highly critical and analytical to solve various problems related to finance. A person who deals finance related activities may be called finance manager.

**Finance manager performs the following major functions:-**

### **1. Forecasting Financial Requirements**

It is the primary function of the Finance Manager. He is responsible to estimate the financial requirement of the business concern. He should estimate, how much finances required to acquire fixed assets and forecast the amount needed to meet the working capital requirements in future.

### **2. Acquiring Necessary Capital**

After deciding the financial requirement, the finance manager should concentrate how the finance is mobilized and where it will be available. It is also highly critical in nature.

### **3. Investment Decision**

The finance manager must carefully select best investment alternatives and consider the reasonable and stable return from the investment. He must be well versed in the field of capital budgeting techniques to determine the effective utilization of investment.

### **4. Cash Management**

Present days cash management plays a major role in the area of finance because proper cash management is not only essential for effective utilization of cash but it also helps to meet the short-term liquidity position of the concern.

## **5. Interrelation with Other Departments**

Finance manager deals with various functional departments such as marketing, production, personal, system, research, development, etc. Finance manager should have sound knowledge not only in finance related area but also well versed in other areas.