

# FINANCIAL FUNCTIONS

The basic finance function includes:-

- (i) Investment decision,
- (ii) Financing decision,
- (iii) Dividend decision.

All the above three decisions are inter-related because the ultimate aim of all these is wealth maximisation. Moreover, they influence each other in one way or the other For e.g. Investment decision should be backed up by finance for which financing decisions are to be taken. The financing decision in turn influences and is influenced by dividend decision. Let us examine the three decisions in relation to their inter-relationship.

**1. Investment Decision:** The funds once procured have to be allocated to the various projects. This requires proper investment decision. The investment decisions are taken after careful analysis of various projects through capital budgeting & risk analysis. Only those proposals are accepted which yields a reasonable return on the capital employed.

**2. Financing Decision:** There are various sources of funds. A finance manager has to select the best source of finance from a large number of options available. The financing decision regarding selection of source and internal financing depends upon the need, purpose, object and the cost involved. The finance manager has also to maintain a proper balance between long term & short loan. He has also to ensure a proper mix of loans fund and owner's funds which will yield maximum return to the shareholders term loan. He has also to ensure a proper mix of loans fund and owner's funds which will yield maximum return to the shareholders.

**3. Dividend Decision:** A finance manager has also to decide whether or not to declare dividend. If dividends are to be declared then what portion is to be paid to the shareholder and what portion is to be retained in the business. Thus, we see that investment, financing and dividend decisions are all inter-related.