FINANCIAL MANAGEMENT

Business finance refers to the funds necessary to carry out business activities.

Financial management is concerned with the flow of cash and includes choices such as fund procurement, investment in long-term and short-term assets, and distribution of earnings to shareholders.

ROLE OF FINANCIAL MANAGEMENT:

1. Size and composition of fixed assets.
2. Quantum of current assets.
3. Total long-term and short-term finance.
4. Divide long-term funding into debt and equity.
5. Every item in the Profit and Loss Account.

GOALS OF FINANCIAL MANAGEMENT

The first and most significant goal is to maximize the wealth of equity owners, which entails increasing the market price of equity shares.

FINANCIAL DECISIONS:

1. Investment Decision: It is concerned with investing the firm's capital in various assets. Investment choices are divided into two categories: capital budgeting decisions (fixed assets) and working capital decisions (current assets).
2. Financing Decision: This involves determining the sources of money, the quantity to be raised from each source, and the cost of each source of funding.
3. Dividend Decision: This involves determining the amount of profit to be delivered to shareholders and the amount of profit to be maintained in the firm to fund its long-term growth.

Factors Affecting Capital Budget Decision

1. Project's cash flow

2. Rate of return

3. Investment Criteria.

Factors Impacting Financing Decision:

1. Cost

2. Risk

3. Flotation Costs

4. Cash Flow Status

5. Fixed Operating Costs

6. Control Considerations.

7. The State of Capital Markets

Factors influencing dividend decision:

1. Amount of earnings

2. Stability of earnings

3. Stability of Dividends

4. Growth Opportunities

5. Cash Flow Position

6. Shareholder Preference

7. Tax Policy

8. Stock Market Reaction.

9. Access to Capital Markets

10. Legal constraints

11. Contractual Constraints

FINANCIAL PLANNING is the process of forecasting money requirements, establishing funding sources, and making the best use of those monies.

Objectives of Financial Planning:

1. To secure the availability of finances when needed.

2. To prevent unnecessary financing.

Importance of Financial Planning:

1. It helps the organization plan for the future.
2. It helps to avoid business shocks and surprises.
3. It promotes cooperation among numerous functions.
4. It eliminates duplication of effort and gaps in planning.
5. It helps to connect the present and the future.
6. It links investment and finance decisions.
7. It simplifies the evaluation of real performance.

THE CAPITAL STRUCTURE refers to the percentage of debt and equity used to fund corporate activities.

The Importance of Capital Budgeting Decisions

1. Long-term development and impacts
2. There is a large amount of money involved.
3. Risks related
4. Irreversible judgments

Factors influencing capital structure decision:

1. Cash Flow Position.
2. Interest Coverage Ratio.
3. Debt Service Coverage Ratio
4. Return on Investment.
5. The cost of debt
6. Tax rate
7. Cost of equity
8. Floatation costs
9. Risk Considerations
10. Flexibility
11. Control.

12. Regulatory Framework.

13. Stock Market Conditions

14. Capital Structure of Other Companies.

Fixed Capital is money invested in fixed assets that will be used over an extended period of time.

Factors Impacting Fixed Capital Requirements:

1. Nature of Business
2. Scale of operations
3. Choice of Technique
4. Technology Upgradation
5. Growth Opportunities
6. Diversification
7. Financing alternatives
8. Level of collaboration

Working capital refers to the portion of total capital required to hold current assets. It may also be described as the excess of current assets over current obligations.

Types of Working Capital

1. Gross working capital (GWC).
2. Net Working Capital(NWC)

Factors Impacting Working Capital Requirements:

1. Type of business
2. Size of operations
3. Business Cycle
4. Seasonality
5. Production Cycle.
6. Credit allowed
7. Credit granted

8. Raw material availability
9. Operational Efficiency
10. Growth Prospects
11. Level of Competition
12. Inflation