1. INTRODUCTION TO FINANCIAL MANAGEMENT

- DEFINITION of FINANCE: According to **Oxford Dictionary**, the word 'finance' means 'management of money' i.e. earning, spending, saving and investing money. Thus, everyone – individual, business firm, government – is concerned with finance. We are concerned with 'business' finance.

- DEFINITION of FINANCIAL MANAGEMENT: According to Ezra Solomon, "Financial Management is concerned with efficient use of an important economic resource namely – capital funds. It is the study of problems involved in the use and acquisition of funds"\

- 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.

✓ IMPORTANCE OF FINANCIAL MANAGEMENT

Finance is the lifeblood of business organization. It needs to meet the requirement of the business concern. Each and every business concern must maintain adequate amount of finance for their smooth running of the business concern and also maintain the business carefully to achieve the goal of the business concern. The business goal can be achieved only with the help of effective management of finance. Some of the importance of the financial management is as follows:

a) Financial Planning:

Financial management helps to determine the financial requirement of the business concern and leads to take financial planning of the concern. Financial planning is an important part of the business concern, which helps to promotion of an enterprise.

b) Acquisition of Funds:

Financial management involves the acquisition of required finance to the business concern. Acquiring needed funds play a major part of the financial management, which involve possible source of finance at minimum cost.

c) Proper Use of Funds:

Proper use and allocation of funds leads to improve the operational efficiency of the business concern. When the finance manager uses the funds properly, they can reduce the cost of capital and increase the value of the firm.

d) Financial Decision:

Financial management helps to take sound financial decision in the business concern. Financial decision will affect the entire business operation of the concern. Because there is a direct relationship with various department functions such as marketing, production personnel, etc.

e) Improve Profitability:

Profitability of the concern purely depends on the effectiveness and proper utilization of funds by the business concern. Financial management helps to improve the profitability position of the concern with the help of strong financial control devices such as budgetary control, ratio analysis and cost volume profit analysis.

f) Increase the Value of the Firm:

Financial management is very important in the field of increasing the wealth of the investors and the business concern. Ultimate aim of any business concern will achieve the maximum profit and higher profitability leads to maximize the wealth of the investors as well as the nation.

g) Promoting Savings:

Savings are possible only when the business concern earns higher profitability and maximizing wealth. Effective financial management helps to promoting and mobilizing individual and corporate savings. Nowadays financial management is also popularly known as business finance or corporate finances. The business concern or corporate sectors cannot function without the importance of the financial management.

❖ *Profit Maximization:*

The objective of financial management is profit maximisation. It cannot be the sole objective of a company as there is a directs/relationship between risk and profit. If profit maximisation is the only goal, then risk factories ignored.

Sometimes, higher the risk, higher is the possibility of profits. Hence, risk has to be balanced with the objective of profit maximisation. In addition, a firm has to take into account the social considerations, and normal obligations to the interests of workers, consumers, society, government, as well as ethical trade practices. However, as profit maximisation ignores risk and uncertainty and timing of returns, a firm can't solely depend on the objective.

❖ ***Wealth Maximisation:***

Hence, the objective of a firm is to maximise its wealth and the value of its shares. According to van Home value is represented by the market price of the company's common stock. The market price of a firm's stock takes into account present and prospective future earnings per share (EPS), the timing and risk of these earnings, the dividend policy of the firm and many other factors that bear upon the market price of the stock.

The concept of wealth in the context of wealth maximisation objective refers to the shareholders' wealth as reflected by the market price of their shares in the share market. Hence, maximisation of wealth means maximisation of the market price of the equity shares of the company.

❖ ***Profit Maximisation Vs Wealth Maximisation:***

Total profits are not as important as earnings per share. Even maximisation of earnings per share is not enough because it does not specify the timing or duration of expected returns.

Further, it does not consider the risk of uncertainty of the future earnings. Hence, wealth maximisation is appropriate and it is possible by maximising the market price per share.
According to Prof. Ezra Soloman, wealth maximisation also maximises the achievement of other objectives. Maximisation of wealth of the firm implies maximisation of value of owner’s share capital reflected in the market price of shares. Therefore, the operative objective of financial management implies maximization of market price of shares.