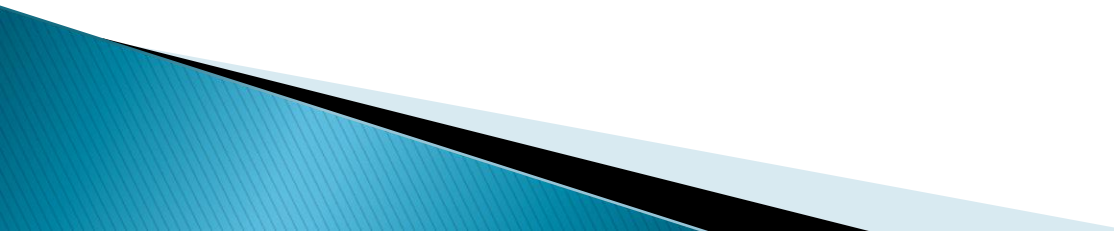
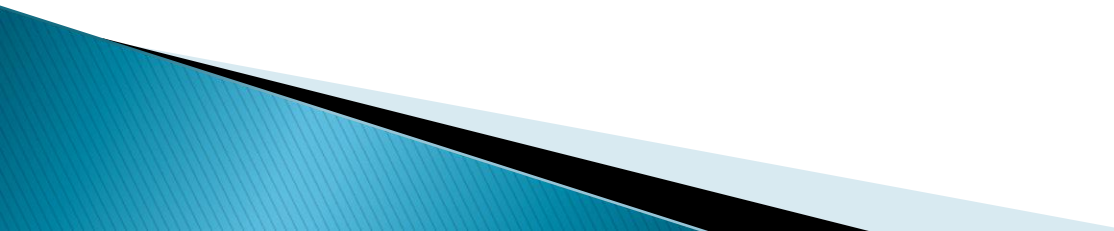


Financial Management?

Financial Management is broadly concerned with the acquisition and use of funds by a business firm. Its scope may be defined in terms of the following questions.

- ❖ How large should the firm be & how fast should it grow?
 - ❖ Composition of firm's assets?
 - ❖ Mix of the firm's financing ?
 - ❖ Analyzing, planning & controlling its financial affairs?
- 

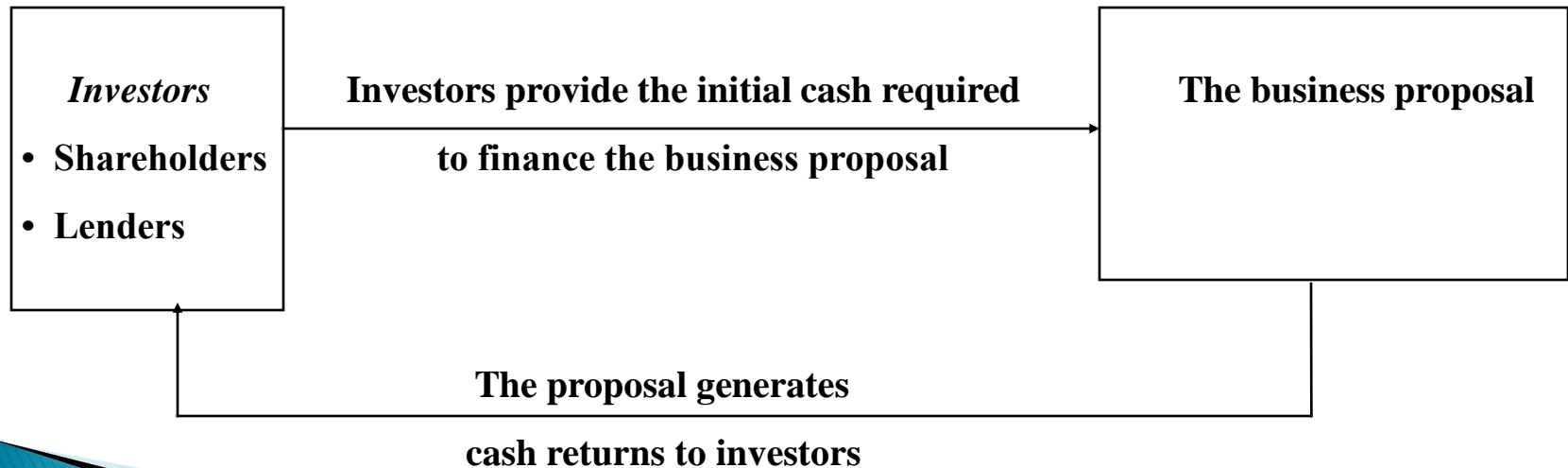
Goals of Financial Management

- ▶ Profit Maximization (profit after tax)
 - ▶ Maximizing Earnings per share(EPS)
 - ▶ Shareholder's Wealth Maximization
- 

THE FUNDAMENTAL PRINCIPLE OF FINANCE

A business proposal-regardless of whether it is a new investment or acquisition of another company or a restructuring initiative –raises the value of the firm only if the present value of the future stream of net cash benefits expected from the proposal is greater than the initial cash outlay required to implement the proposal.

CASH ALONE MATTERS



DECISIONS, RETURN, RISK, AND MARKET VALUE

**Capital Budgeting
Decisions**

**Capital Structure
Decisions**

**Dividend
Decisions**

**Working Capital
Decisions**

Return

Risk

**Market Value of
the Firm**



FORMS OF ORGANISATION

Public Limited Company

- **Many owners**
- **Somewhat complex**
- **Limited liability**
- **Distinct legal person**
- **Free transferability of shares**

Public Limited Company's Attraction

- **The potential for growth is immense because of access to substantial funds**
- **Investors enjoy liquidity because of free transferability of securities**
- **The scope for employing talented managers is greater**

ABBREVIATED COMPANY NAMES

Private

Public

UK

Ltd

plc

Germany

GmbH

AG

Japan

YK

KK

Netherlands

BV

NV

France

Sarl

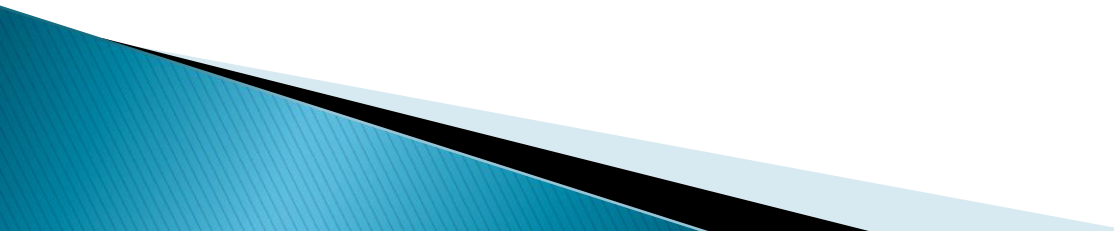
SA

Italy

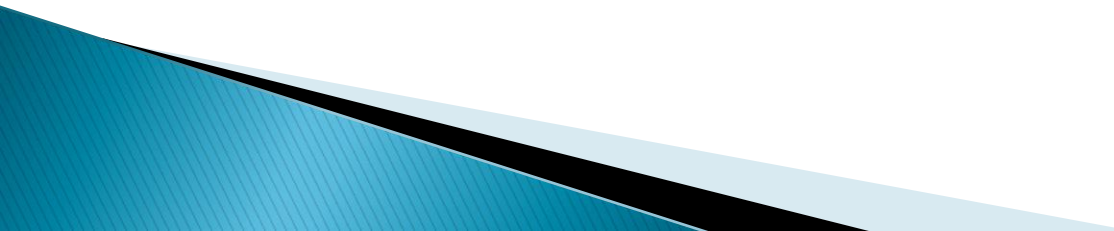
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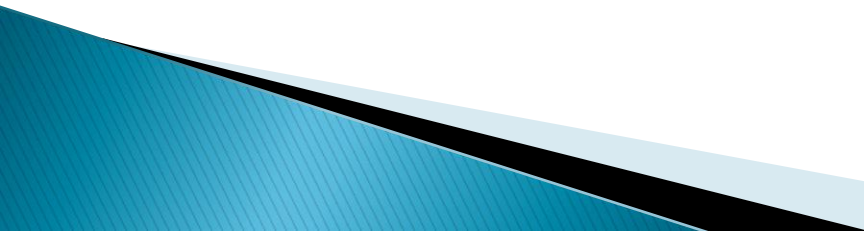
Decisions under Financial Management

- ▶ Investing Decision
 - ▶ Financing Decision
 - ▶ Dividend Decision
- 

Investing Decision

- ▶ Investment in Short Term & Long Term Projects
 - ▶ Short Term Projects
 - Decisions relating to **Working Capital Mgt.**
 - Inventory Management,
 - Receivables Management, etc.
- 

Long Term Decision

- ▶ Relates to Capital Budgeting Decisions
 - ▶ Techniques:
 - (i) Traditional– Payback Period, Accounting Rate of Return
 - (ii) Modern– Net Present value Method, Internal Rate of Return, Profitability Index, etc.
- 

Financing Decision

- ▶ Decision relation to Funding of the Projects
- ▶ Sources
 - Short Term (trade credit, bank overdraft, etc.)
 - Long Term
 - (i) *Owners Funds* (Equity/Preference Share Capital, Retained Earnings)
 - (ii) **External Funds**(Debentures, Long Term Loans, etc.)

Dividend Decision

This decision relates to How much of the Earnings to be

DISTRIBUTED AS DIVIDENDS?

AND

HOW MUCH TO BE KEPT


AS RETAINED EARNINGS?

BUSINESS ETHICS AND SOCIAL **RESPONSIBILITY**


Corporate Social Responsibility (CSR)

- The World Business Council: “Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large.”
- While Hayek and Friedman argued that a business firm should not swerve from its economic goal, many business firms in practice do contribute to various social causes.

ALL MANAGERS ARE FINANCIAL MANAGERS

- **The engineer, who proposes a new plant, shapes the investment policy of the firm**
 - **The marketing analyst provides inputs in the process of forecasting and planning**
 - **The purchase manager influences the level of investment in inventories**
 - **The sales manager has a say in the determination of the receivables policy**
 - **Departmental managers, in general, are important links in the finance control system of the firm**
- 

RELATIONSHIP OF **FINANCE TO ACCOUNTING**

- **Accounting is concerned with score keeping, whereas finance is aimed at value maximising.**
 - **The accountant prepares the accounting reports based on the accrual method. The focus of the financial manager is on cash flows.**
 - **Accounting deals primarily with the past. Finance is concerned mainly with the future.**
- 

EMERGING ROLE OF THE **FINANCIAL MANAGER IN INDIA**

The job of the financial manager in India has become more important, complex and demanding due to the following factors:

- **Liberalisation**
- **Globalisation**
- **Technological developments**
- **Volatile financial prices**
- **Economic uncertainty**
- **Tax law changes**
- **Ethical concerns over financial dealings**
- **Shareholder activism**

EMERGING ROLE OF THE **FINANCIAL MANAGER IN INDIA**

The key challenges for the financial manager appear to be in the following areas:

- **Investment planning and resource allocation**
 - **Financial structure**
 - **Mergers, acquisitions, and restructuring**
 - **Working capital management**
 - **Performance management**
 - **Risk management**
 - **Corporate governance**
 - **Investor relations**
- 