

Lesson-17

FINANCIAL MANAGEMENT

Introduction

Do you know that a trading concern or a construction company needs funds for carrying on its activities successfully? It requires funds to acquire fixed assets like machines, equipments, furniture's etc. and to purchase raw materials or finished goods, to pay its creditors, to meet its day-to-day expenses, and so on. Every businessman has to be very careful not only in assessing the firm's requirement of finance but also in deciding on the forms in which funds are raised and utilized. Now you will learn about the process of estimating the firm's financial requirement and deciding on the pattern of finance.

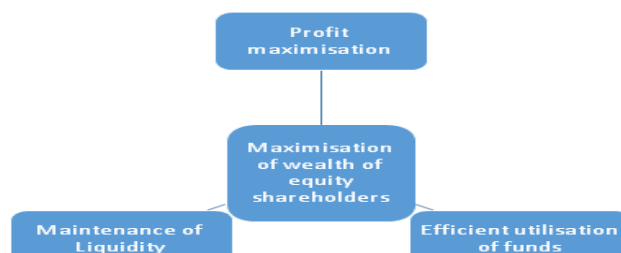
Important points from the text:

1. The process of estimating the financial requirement, determining the pattern of financing and formulating financial policies and procedures is termed as 'Financial planning'. To achieve the objectives of financial planning effectively.
2. The firm's capital requirement can be broadly divided :

Fixed capital

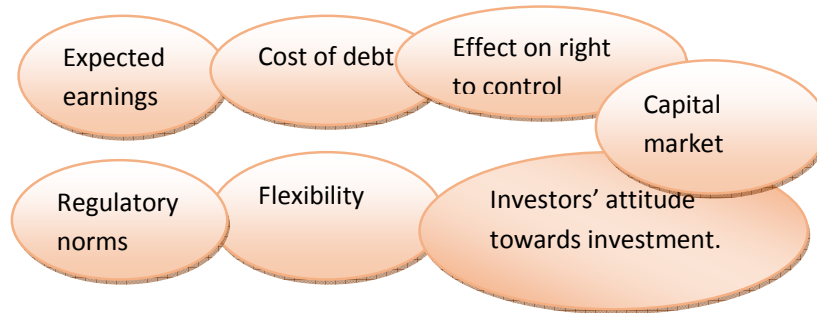
Working capital

3. The main objective of financial management:



4. Financial planning is helpful in developing a sound capital structure, estimating accurate requirement of fund, effective utilization of fund, in avoiding shortage of funds and surplus of funds, provides policies for different departments and control financial activities.
5. The financial requirement of a firm can be met through ownership capital (equity) and/or borrowed capital (debt). The firms normally use a judicious mix of debt and equity in order to ensure a higher return on owners' funds. Such a mix is termed as the 'Capital structure' of the firm
6. The choice of an appropriate capital structure is determined by a host of factors:

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7. Dividend refers to the amount of profits distributed by a company to its shareholders. The amount of profit to be distributed as dividend and the amount of profit to be retained by the company for meeting its future financial requirement is determined by factors like future financial needs of the company, liquidity requirement, and company's access to capital market, expectations of the shareholders, tax policy, investment opportunity and growth prospects and legal constraints.

Learn new points:

- Fixed capital: - It represents the requirement of capital for permanent or long-term financial needs of the business.
- Working capital: - It represents the amount of funds required for financing current assets.
- Investment decision: - It is concerned with careful selections of assets in which funds will be invested by the firm.
- Financial decision :- It specify the ratio of owned funds and borrowed funds
- Dividend decision: It decide how much profits to be distributed as dividend and how much to retain for expansion activities.
- Financial planning: - It decides how much to spend and on what to spend.

Evaluate yourself

1. Mrs Sonika selected any 5 items/products that she uses, for example, sugar, furniture, cooler etc. Help her to list them and analyze whether each of them require huge or less working capital for production and why?
2. Do you think financial planning is important for any kind of business

Maximize your marks

- Read the chapter carefully and go through the learning points
 - Get into the little details of the above mentioned important points.