Ch-5 - Understanding Basics of Financial Management and Accounting.

* Explain Financial Management with its Purpose, Function and importance.

=> Financial Management means planning, organizing, directing and controlling the Financial activites.

Financial Management refers to the efficient and effective management of money.

Financial Management directly connected with the top level management.

In Financial Management, We have take decisions like Investment, Dividend or Financial decisions.

Page No.
Date : / /

→ Purpose of Financial Management:

This are the basic Purpose of Financial Management.

1 Effective Financial management helps to avoid bankruptcy.

2 To ensure regular and adequate supply to funds to concern.

3 To ensure optimum funds utilization.

4 effective Financial management helps to increase market price of the share.

5 To ensure adequate returns to the shareholderes.

6 To ensure safety on investment.

Page No.
Date : / /

-> Function of Financial Management.

This are the Function of Financial Management.

1 Estimation of capital requirements:

A finance manager has to make estimation with expected costs and profits of capital.

2 Determination of Capital Composition:

Once the estimation has been made, than ~~devi~~ captical structure have to be decided.

3 Choice of Sources of Funds:

For additional funds company can take Loans from banks and build Public deposits form of bonds.

4 Investment of Funds:

The finance manager has to decide to allocate Funds in other Company.

5 Disposal of surplus:

The net profits decision have to made by the finance manger using dividend declaration or Retained Profits.

6 Management of Cash:

Finance manager has to make decision regarding cash. Cash is required for payment of wages or employee salaries.

7 Financial Controls:

The Finance manager has to Control all the Financial activites.

Page No.
Date : / /

→ Importance of Financial Management:

This are the basic important Factor of Financial Management

1 Financial Planning:

Financial management helps to determine the financial requirement of the business concern.

2 Acquisition of Funds:

Financial management involves the acquisition of required finance to the business concern.

3 Proper Use of Funds:

Proper Use and allocation of Funds leads to improve the efficiency of business.

4 Financial Decision:

Financial Decision helps to take major decision to improve the efficiency of business.

5 Improve Profitability:

Take best financial decision, can increase profit in business.

6 Increase the value of the Firm:

Financial management can increase the wealth of the investors.

* Explain Sources of Finance according to Basis of Time Period.

=> According to Time Period, Sources of Finance can be divided into three way.

1) Long Term Sources

2) Medium Term Sources

3) Short Term Sources.

Page No.
Date : / /

1 Long - Term Sources of Finane:

For Long Term Sources, time Period is more than 5 year to 10, 15 years.

Long - Term Sources can take by Goverment or Bank.

Long - Term Sources interest must be Fixed rate.

Long - Term Sources can be Use as a Risk management.

2 Short - Term Sources of Finance.

For Short - Term Sources, time Period is typically 12 to 18 months.

Short - Term Sources can be interest must be Wavering Rate.

Short - Term Sources of Finance can be provide by Band or Leaders.

Sources of Short-term Finance is trade credit, bank loans or Commercial paper.

3 Medium - Term Sources of Finace :

Medium Term Sources of Finace Time duration is between 3 to 5 years.

Intrest Rate is floating Rate.

Medium Term sources is provides by bank or Financial Institutes.

Sources of medium term finance is various types of bounds, income funds or growth funds.

* Explain Sources of Finance According to Ownership and Control:

=) Sources of Finance are classified based on Ownership and control in two ways.

1) Owned Capital

2) Borrowed Capital

1 Owned Capital :

Owned Capital also refers to equity capital.

In this, Organization is divided into new equity shares model.

Time duration of Owned Capital is Permanently invested in Company.

No Fixed return payable in the absence of profits.

SMVS
Page No.
Date : / /

In Owned Capital, Risks of bankruptcy also reduces.

2 Borrowed Capital:

In Borrowed Capital, Company can take loans from bank or take bonds.

In Borrowed Capital, Risks of bankruptcy is increaes.

We have to Pay Fixed return in the absence of profit.

Borrowed Captial business is a short - time duration.

It Gives the business a leverage benefit.

* Explain Sources of Finance According to Sources of Generation.

=> Based on Sources of Generation there are two types of Sources.

1) Internal Sources

2) External Sources.

	Internal Sources	External Sources.
1	Sources of funds generate by within the business,	Sources of funds generated by outside the business.
2	Includes sales of stock ~~of ₹~~ and sales of fixed Assets.	Includes Loan from bank or Financial institution funds.
3	Cost is low	Cost is High
4	Rising amount is less.	Rising amount is huge.