

SUBJECTNAME: FINANCIAL MANAGEMENT
CLASS:-III B.Com(CA)

UNIT-I:

- 1.Nature and importance of finance functions
- 2.Organizing finance functions
- 3.Functions of finance manager
- 4.Objectives of finance functions
- 5.Methods and sources of rising finance critical
- 6.Appraisal of the various sources of finance.

What is Financial Management?

In simple terms, financial management is the business function that deals with investing the available financial resources in a way that greater business success and return-on-investment (ROI) is achieved. Financial management professionals plan, organize, and control all transactions in a business.

They focus on sourcing the capital whether it is from the initial investment by the entrepreneur, debt financing, venture funding, public issue, or any other sources. Financial management professionals are also responsible for fund allocation in an optimized way to ensure greater financial stability and growth for the organization.

Importance of Financial Management:

The financial management of an organization determines the objectives, formulates the policies, lays out the procedures, implements the programmes, and allocates the budgets related to all financial activities of a business. Through a streamlined financial management practice, it is possible to ensure that there are sufficient funds available for the company at any stage of its operations. The importance of financial management can be assessed by taking a look at its core mandate:

- Availability of sufficient funds
- Maintaining a balance between income and expenses to ensure financial stability
- Ensuring efficient and high ROI

- Creating and executing business growth and expansion plans
- Safeguarding the organization against market uncertainties through ensuring buffer funds

Let's take a deeper look at the scope of financial management to gain a greater understanding of its importance.

Financial Management Scope:

Financial management in a company is governed by the principle that it must protect the financial interests of the investors, shareholders, and ensure business growth. Apart from securing their interests, the financial managers are also expected to ensure greater ROI that generates more wealth for all shareholders. There are certain objectives of financial management which are universally accepted by experts and business leaders, and these clearly outline the financial management scope and functions.

Objectives of Financial Management:

Certain specific and highly impactful objectives that financial managers aim to attain are:

Assessing Capital Needs

Financial managers need to evaluate factors such as cost of current and fixed assets, cost of marketing, need for buffer capital, long-term operation and human resources cost etc. Successful businesses have clearly defined short-term and long-term financial requirement projections in place.

Determination of Capital Structure

A company's capital structure is the framework that determines decisions such as debt-equity ratio in the short as well as long term.

Creation of Effective Financial Policies

There is a need to frame efficient financial policies that govern cash control, the lending and borrowing processes and so on.

Resource Optimization

Great financial managers are able to navigate through different scenarios by making optimum use of the available financial resources. This would reduce the cash burn and increase the cash churn to generate maximum ROI.

Functions of Financial Managers and Advisors:

To achieve these objectives, the financial managers and advisors must perform certain functions. These include:

Fundraising

For any business to grow confidently and have a good market reputation, adequate amount of cash and liquidity is critical. Therefore, businesses raise funds by equity or debt financing. Financial managers take decisions on maintaining a healthy balance between debt and equity to ensure that the company's financial health is not impacted.

Fund Allocation

Smart fund allocation is as critical to a business' financial health as fund-raising itself. The funds that a company has must be allocated in the best way possible after due diligence on:

- Business size and growth potential
- Whether the assets are short-term or long-term before spending on them
- Mode of fund raising

Profit Planning

Unless it is a social organization, earning more profits would be among any business's primary goals. The profits a company makes, determines its financial health and future growth. Therefore, adequate usage of the money generated as profit is needed. Whether they have to be ploughed back to acquire assets and expand coverage, or to be spent on marketing, acquiring other businesses or invested to act as a buffer resource, all these considerations are made by financial leaders.

Understanding Capital Markets

A company's shares are publicly traded on stock exchanges, and the transactions as well as the change in a listed company's market capital is a constant phenomenon. Good financial managers have to be well-versed with the capital market dynamics, and the risks associated. Whether dividends are to be given to the shareholders when business generates profits or reinvested into the business, is one of the crucial decisions that can impact shareholders' sentiments and company's goodwill.

Career Opportunities in Financial Management

Since financial management is integral to any business, and there are huge opportunities in the financial sector verticals such as accounting, banking, insurance and other financial companies, there are various career options available in the field. We've curated a few lucrative opportunities in financial management for you:

Corporate Finance Roles

Corporate finance is one of the financial roles pertaining to raising funds for the business operations. Corporate finance professionals have to manage funding sources, investment decisions, capital restructuring, while focusing on the following parameters.

- Striking a balance between risk and profitability
- Analyzing and forecasting economic trends in the industry
- Analyzing company's reports and making improvement related suggestions
- Enhancing the value of stock
- Fund management through selection of investment portfolios
- Focusing on actions that mitigate financial risks for the company

There are both leadership as well as junior level job opportunities for corporate finance professionals. To prepare yourself for the role, it is best advised to undergo a professional financial management course that will impart necessary know-how regarding the importance of financial management in the corporate financing sector.

Investment Banking Roles

One of the most rewarding and reputed careers in the finance sector is in the field of investment banking. Investment banking professionals handle financial restructuring of companies and they use data and technologies to generate insights and make impactful financial decisions. Investment banking requires good understanding and a passion for financial markets and economic trends. Trading and stockbroking, and asset management roles are also a part of this segment. While stockbrokers make stock market transactions on behalf of their clients, the asset management companies determine the investment portfolios over longer periods and diversify client investments with an aim to mitigate risk and deliver superior ROI.

A diploma in banking and finance or a financial risk management course would be an ideal value addition for job seekers in this segment.

Portfolio Management – In the modern world of financial operations, a hybrid of commerce and science has emerged as portfolio management. It is an advanced field that requires sound knowledge of mathematics, business operations, and data analytics. A portfolio manager would be entrusted with guiding business policies related to investments, and asset allocation decisions. He/she would also conduct SWOT analysis across markets and focus on factors such as growth vs safety, debt risks etc.

Risk Management

With constantly changing market dynamics, and other socioeconomic and political variations, risk management has become a crucial part of the financial sector operations. Professionals in this field use their mathematical expertise, analytical

skills, reasoning ability and market understanding to advise their clients. There are various types of **risk management roles** such as:

- **Financial Risk Manager**
- **Enterprise Risk Manager**
- **Supply Chain Risk Manager**
- **Operational Risk Manager**
- **Digital Risk Manager**

Risk management jobs are richly paying and there are ample opportunities in NBFCs and insurance sector for risk management roles such as analysts, managers, consultants and advisors etc.

A financial risk management course would be a perfect value addition to an accounting qualification or an MBA degree.

Financial Planning

Financial planners are in high demand these days. Individuals as well as companies are availing the services of financial planners to optimize their investments and savings, to ensure future financial safety. Financial planners need to be experts in analyzing financial statements, income flows, expenses, and creating a customized solution that matches a client's needs.

There are various segments of financial planning such as wealth management, tax planning, retirement planning, investments etc. The aspirants can work as self-employed financial planners, launch a financial planning startup or work in businesses such as the Knowledge Process Outsourcing (KPOs), NBFCs, Asset

Management Companies (AMCs), or wealth management and financial services companies.

A masters degree in finance or PGDM Finance along with an MBA would make a person a good hire in this arena.

Commercial Banking Sector

Banks are a key enabler of financial support to individuals as well as businesses. From maintaining savings and current accounts, debit, and credit cards, to offering personal, home, education or business loans, the banks are a key to everyone's financial journey. The banking jobs are respected, offer good salaries and fixed working hours. Nowadays, having technological expertise alongside an MBA degree can make a person highly employable in this arena.

Compliance and Internal Financial Management

Companies also employ managers and financial administrators to handle various procedures and regulations such as law adherence, ethical operations, compliances to industry standards, and reputation management etc.

These roles are best suited for people with college degrees in accounting and law. By adding a sector specific qualification such as diploma in financial accounting, one can grab attractive internships or job opportunities in this arena.

Explore Learning Options in Financial Management

Today, we are living in a world where hybrid educational models combining online as well as on-campus learning options are available in all fields including financial

management. **Emeritus India** offers numerous options in general as well as area specific financial management specializations.

Emeritus is an internationally acclaimed career learning and development brand with over 2000 employees, and offices in Mumbai, New Delhi, Shanghai, Singapore, Palo Alto, Mexico City, New York, Boston, London, and Dubai. Emeritus is committed to teaching most advanced and futuristic financial management skills to individuals, companies, and governments all over the world. We offer online learning as well as in-class courses in collaboration with over 50 top-tier universities. Aspirants can enrol for options like diplomas, certifications, **degree programs**, boot camps and senior executive programs to acquire new skills and transform their career.

Some of the **financial management courses** from Emeritus are listed below:

- Executive Certificate Programme in Fintech and Blockchain, SPJIMR
- Chief Financial Officer Programme, IIM Calcutta
- Financial Analysis and Financial Management, IIM Kozhikode

There is an extensive range of financial management, analytics and other learning opportunities from Emeritus that can give a jump start to a career in the financial sector. Alternatively, for those already working in this field, these courses offer a significant value addition that would lead to career growth, taking up leadership roles, or to help launch the dream business that will transform the financial industry of the future.

Methods of Raising Finance for Business

The methods of financing should be adjusted to the stage or phase of the trade cycle. The total capital shall be raised by different means, or what is sometimes called “geared”, according to the phase of the cycle.

Different types of securities may be issued in certain proportions, and what ratio will each type bear to the total capital will depend upon the particular phase. For example, in the beginning of an optimistic expansion, debentures may be offered to good advantage. At a later time, when speculative enthusiasm is strong, shares will yield better returns. During depression short time borrowing can be resorted to, if the credit of the company is good. The financing plan may be adjusted to the conditions of the market and the security market by varying the proportion, rate of yield, term denominations and guaranteed rights of the securities issued.

The sources of finance for an enterprise can be many and diverse. In the case of an individualistic concern, the chief source of finance is the individual proprietor or proprietors as in a partnership or a Joint Hindu family business. This may be supplemented by borrowed money in varying amounts according as the credit of the concern is good or poor.

Since the capital requirements are comparatively small, there are hardly any financial problems controlling individual enterprise. But major or large-scale industries, which are mainly run by joint-stock-companies, require vast amounts of capital, and must therefore resort to all sorts of methods for raising the necessary funds. The main sources of finance in India may be classified as:

- 1. Individual investment, only in the case of individualistic concerns.**

2. Issue of shares of different kinds.
3. Issue of bonds and debentures.
4. Public deposits.
5. Managing agents.
6. Loans from joint-stock banks and indigenous bankers.
7. Gradual development method of using profits to increase capital sometimes called 'ploughing back' of earnings.
8. The State.

Sources of Finance:

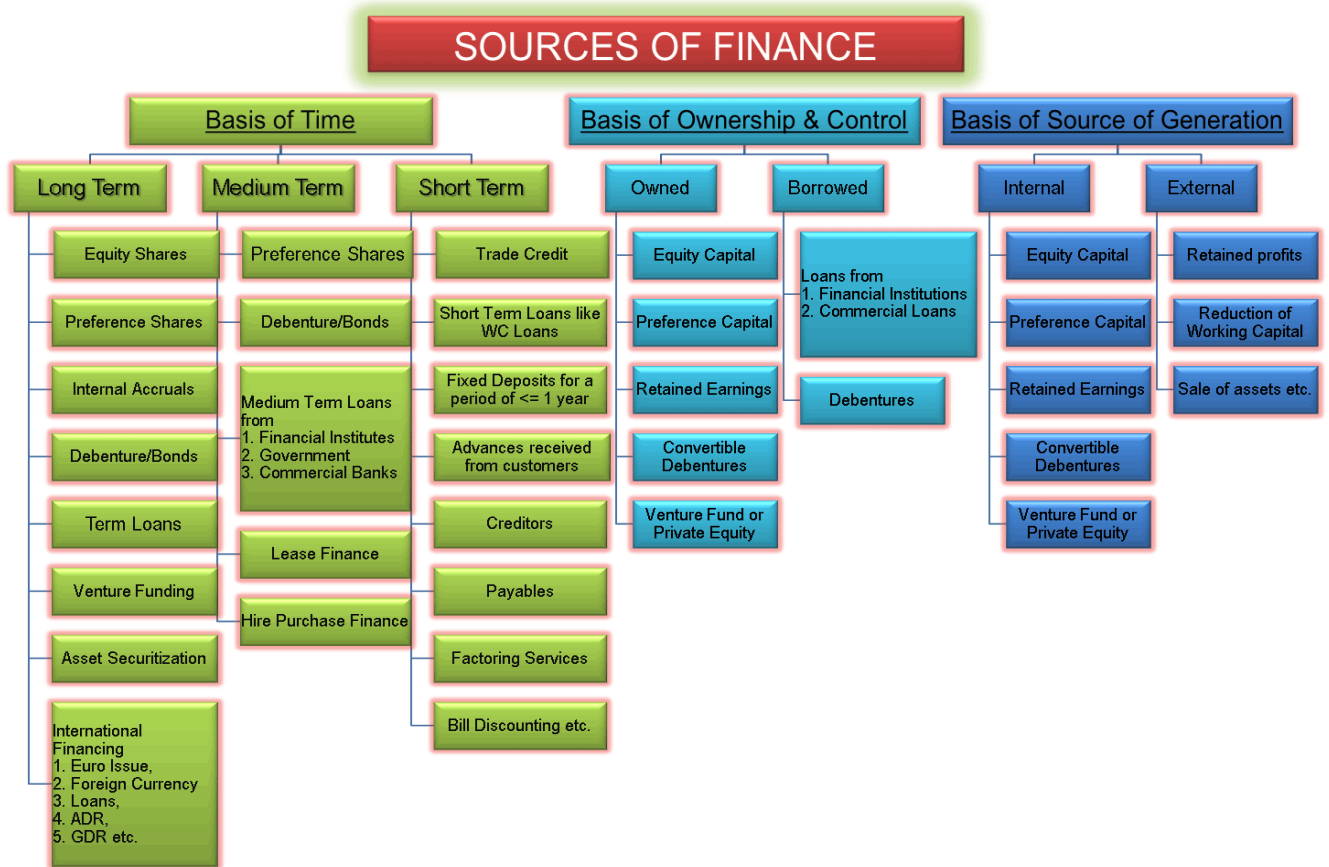
Sources of finance for business are equity, debt, debentures, retained earnings, term loans, working capital loans, letter of credit, euro issue, venture funding, etc. These sources of funds are used in different situations. They are classified based on time period, ownership and control, and their source of generation. It is ideal to evaluate each source of capital before opting for it.

Sources of capital are the most explorable area, especially for the entrepreneurs who are about to start a new business. It is perhaps the most challenging part of all the efforts. There are various capital sources we can classify on the basis of different parameters.

Knowing that there are many alternatives to finance or capital a company can choose from. Choosing the right source and the right mix of finance is a crucial

challenge for every finance manager. Selecting the right source of finance involves an in-depth analysis of each source of fund. For analyzing and comparing the sources, it needs an understanding of all the characteristics of the financing sources. There are many characteristics on the basis of which sources of finance are classified.

On the basis of a time period, sources are classified as long-term, medium-term, and short-term. Ownership and control classify sources of finance into owned and borrowed capital. Internal sources and external sources are the two sources of generation of capital. All the sources have different characteristics to suit different types of requirements. Let's understand them in a bit of depth.



According to Time Period

Sources of financing a business are classified based on the time period for which the money is required. The time period is commonly classified into the following three:

LONG TERM SOURCES OF FINANCE / FUNDS	MEDIUM TERM SOURCES OF FINANCE / FUNDS	SHORT TERM SOURCES OF FINANCE / FUNDS
Share Capital or Equity Shares	Preference Capital or Preference Shares	Trade Credit

Preference Capital or Preference Shares	Debenture / Bonds	Factoring Services
Retained Earnings or Internal Accruals	Lease Finance	Bill Discounting etc.
Debenture / Bonds	Hire Purchase Finance	Advances received from customers
Term Loans from Financial Institutes, Government, and Commercial Banks	Medium Term Loans from Financial Institutes, Government, and Commercial Banks	Short Term Loans like Working Capital Loans from Commercial Banks
Venture Funding		Fixed Deposits (<1 Year)
Asset Securitization		Receivables and Payables
International Financing by way of Euro Issues, Euro Equity, Foreign Currency Loans, ADR, GDR etc.		