

# Introduction to Financial Management

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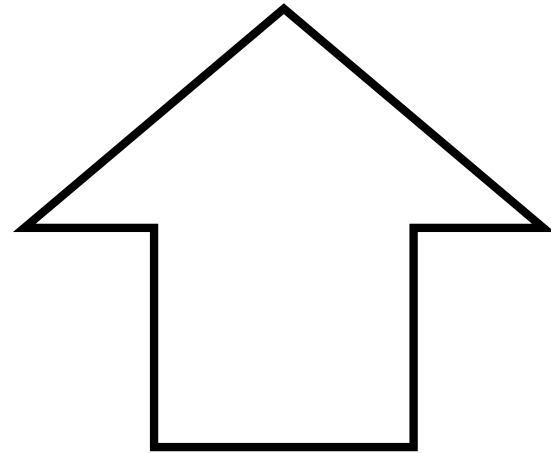
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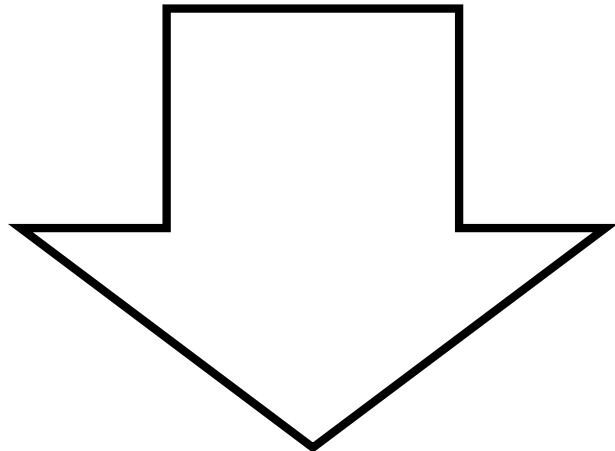
# Definition of Financial Management

- “Financial management is the activity concerned with **planning, raising, controlling and administering of funds** used in the business.” – **Guthman and Dougal**
- “Financial management is that area of business management devoted to a **judicious use of capital and a careful selection of the source of capital** in order to enable a spending unit to move in the direction of reaching the goals.” – **J.F. Brandley**
- “Financial management is the operational activity of a business that is **responsible for obtaining and effectively utilizing the funds** necessary for **efficient** operations.”- **Massie**

Two forces



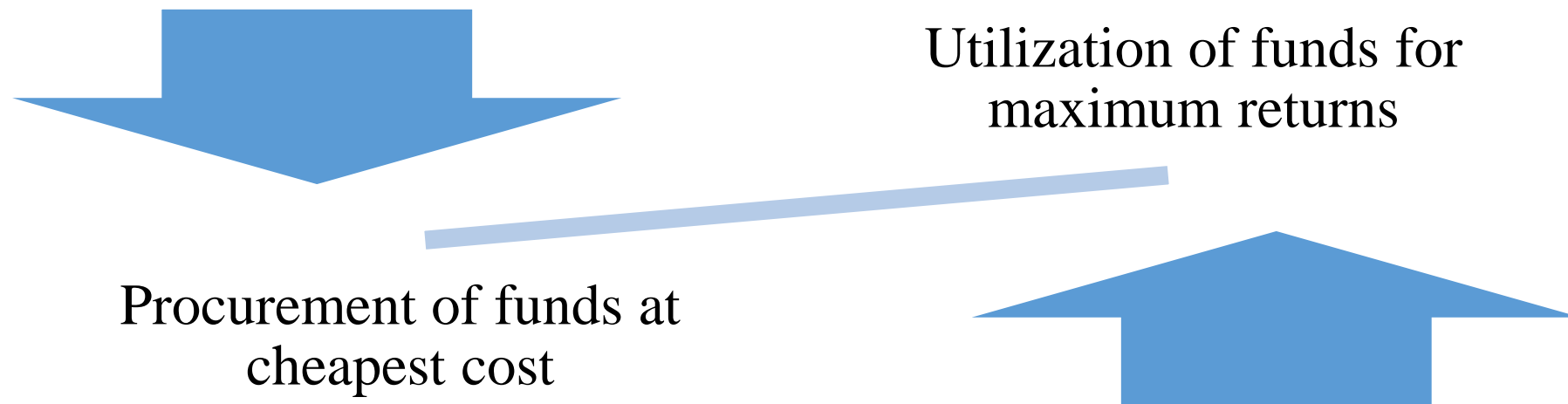
Demand of funds



Supply of funds

# Financial Management is concerned with following processes:

- **Assessment** of financial needs of an organization to achieve its goals and objectives, in keeping with its Mission,
- **Procurement** of finances to meet the assessed needs
- **Use and control** the use of funds (whether generated by the organization or procured from external).



# Scope of Financial Management

- Return on Investment, Return on Capital Employed etc.
- **Profit maximization** ( Maximum return on capital invested)
- **Cost minimization** ( Procuring funds at minimum cost)
- Sales maximization or attainment of a given level of sales by investing least in fixed assets
- **Maintenance of liquidity** position at a given level.
- Keeping shareholders satisfied by creating **value for them**.



# Profit Maximization

- **Concept:** The main objective of a concern is to earn a larger amount of profit.
- **Time frame:** Achieving short term objectives.
- **No consideration of Risks and Uncertainty.**
- **Focus is on operational efficiency of the organization.**
- **Bold decisions painful in short run but gainful in long run is avoided.**

# Profit maximization

## ADVANTAGES

- ❖ Economical Survival
- ❖ Measurement Standard
- ❖ Social Welfare
- ❖ Economical Welfare

## DIS ADVANTAGES

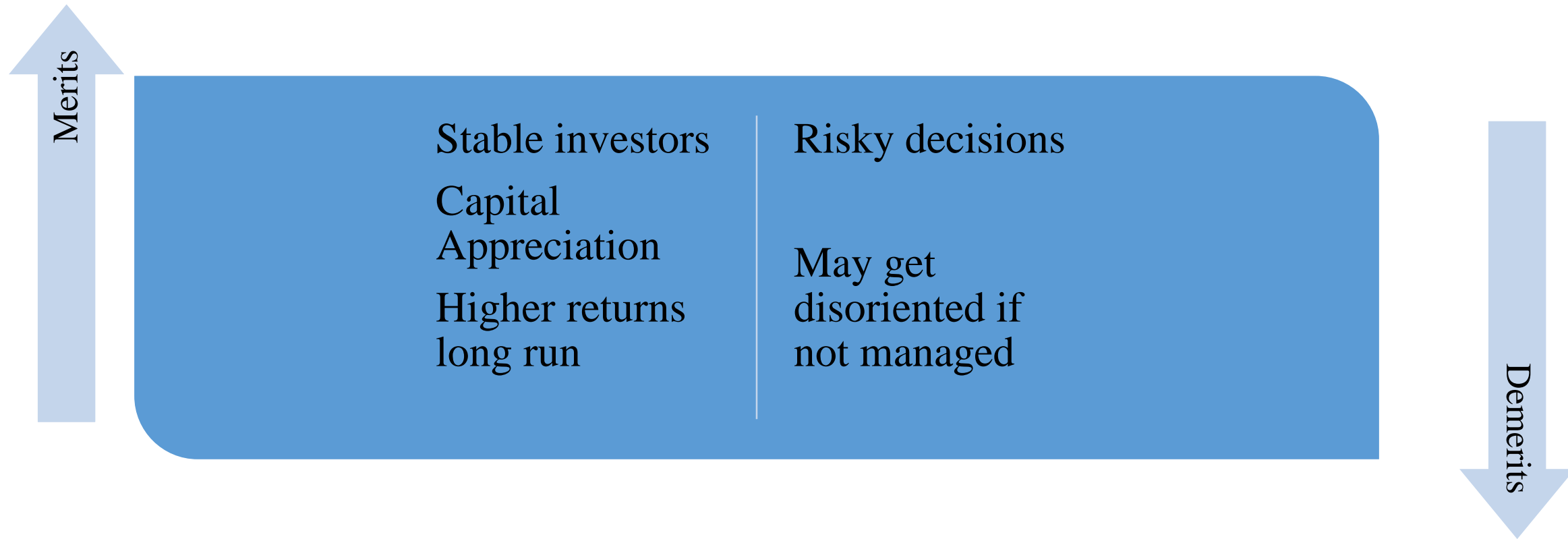
- ❖ Haziness of the concept “Profit”
- ❖ Ignores time value of money
- ❖ Ignore Risk
- ❖ Ignores Quality



# Wealth Maximization

- Concept: The ultimate goal of the concern is to improve the market value of its shares.
- Time frame: Achieving long term objectives.
- Gives consideration of Risks and Uncertainty.
- Gaining a large market share.
- Bold decisions painful in short run but gainful in long run is taken.

# Wealth Maximization



# Approaches in Financial Management

## Traditional Approach

Procurement

## Modern Approach

Procurement

**Investment**

Dividend

**Working Capital**

# Decisions to be taken in FM

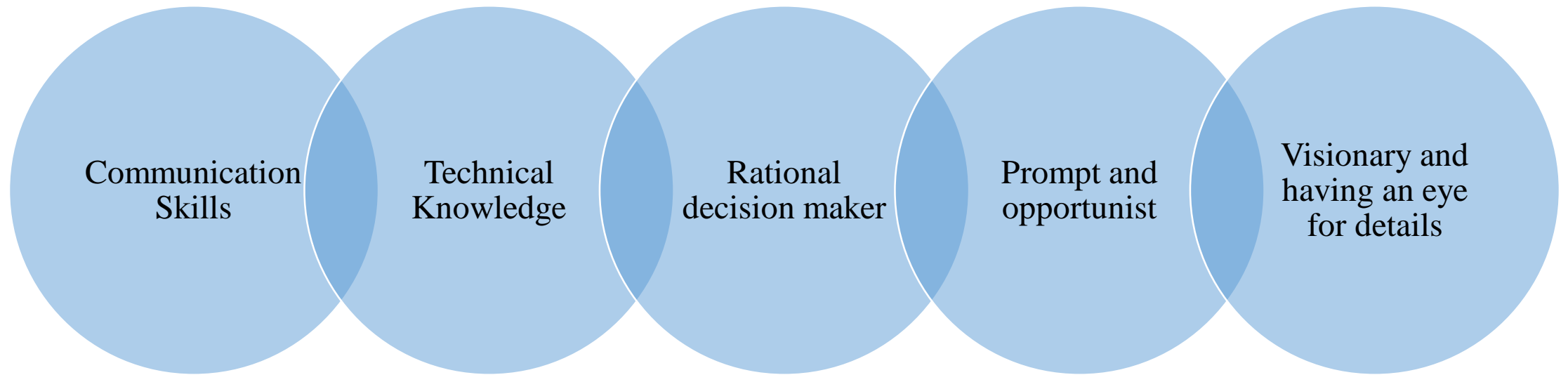
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graph TD; A[Decisions to be taken in FM] --- B[Investment]; A --- C[Financing]; A --- D[Dividend]
```

Investment

Financing

Dividend

# Qualities of Finance Manager



# Treasurer Vs Controller

	<b>Treasurer</b>		<b>Controller</b>
1	Provision of capital	1	Accounting
2	Relation with banks and other financial institutions	2	Preparation of financial reports
3	Cash management	3	Reporting and interpreting
4	Receivables management	4	Planning and control
5	Protect funds and securities	5	Internal audit
6	Investors relations	6	Tax administration
7	audit	7	Reporting to government

# References

- <https://bcomvitalnotes.blogspot.com/2017/02/distinguish-between-traditional-and.html>
- <https://www.toppr.com/guides/business-environment/business-functions/financial-management/>

# Thank You!!

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