

Course: PGDFM

Paper I

Topic: Financial Management: Scope and Nature

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## **Financial Management**

Finance is the lifeline of any business. However, finances, like most other resources, are always limited. On the other hand, wants are always unlimited. Therefore, it is important for a business to manage its finances efficiently. As an introduction to financial management, in this article, we will look at the nature, scope, and significance of financial management, along with financial decisions and planning.

In a nutshell, financial management –

- Endeavors to reduce the cost of finance
- Ensures sufficient availability of funds
- Deals with the planning, organizing, and controlling of financial activities like the procurement and utilization of funds

## **Nature, and Scope of Financial Management**

Financial management is an organic function of any business. Any organization needs finances to obtain physical resources, carry out the production activities and other business operations, pay compensation to the suppliers, etc. There are many theories around financial management:

1. Some experts believe that financial management is all about providing funds needed by a business on terms that are most favorable, keeping its objectives in mind. Therefore, this approach concerns primarily with the procurement of funds which may include instruments, institutions, and practices to raise funds. It also takes care of the legal and accounting relationship between an enterprise and its source of funds.
2. Another set of experts believe that finance is all about cash. Since all business transactions involve cash, directly or indirectly, finance is concerned with everything done by the business.
3. The third and more widely accepted point of view is that financial management includes the procurement of funds and their effective utilization. For example, in the case of a manufacturing company, financial management must ensure that funds are available for installing the production plant and machinery. Further, it must also ensure that the profits adequately compensate the costs and risks borne by the business.

In a developed market, most businesses can raise capital easily. However, the real problem is the efficient utilization of the capital through effective financial planning and control.

Further, the business must ensure that it deals with tasks like ensuring the availability of funds,

allocating them, managing them, investing them, controlling costs, forecasting financial requirements, planning profits and estimating returns on investment, assessing working capital, etc.

### The scope of Financial Mangement

The introduction to financial management also requires you to understand the scope of financial management. It is important that financial decisions take care of the shareholders' interests.

Further, they are upheld by the maximization of the wealth of the shareholders, which depends on the increase in net worth, capital invested in the business, and plowed-back profits for the growth and prosperity of the organization.