

B.COM SEM - IV
MJC - 5 (BUSINESS FINANCE)
TOPIC - FUNCTIONS OF FINANCIAL MANAGEMENT

Functions of Financial Management

Financial management refers to the efficient planning, organizing, directing, and controlling of financial resources of a business. The main objective of financial management is to maximize the wealth of shareholders while ensuring smooth functioning of the organization. To achieve this objective, financial management performs several important functions, which are explained below:

1. Financial Planning

Financial planning is the first and most important function of financial management. It involves estimating the future financial requirements of the business and deciding how these funds will be obtained and utilized. Proper financial planning ensures availability of adequate funds at the right time, helps in avoiding shortage or surplus of funds, and promotes stability and growth of the business.

2. Estimation of Capital Requirements

Under this function, the finance manager estimates the total capital needed for fixed assets like land, building, machinery, and working capital required for day-to-day operations. The requirement depends on factors such as nature of business, scale of operations, technology used, and future expansion plans.

3. Determination of Capital Structure

Capital structure refers to the mix of different sources of long-term finance such as equity shares, preference shares, debentures, and long-term loans. The finance manager must decide the best combination of these sources to minimize cost of capital and financial risk while maximizing returns.

4. Procurement of Funds

After deciding the capital structure, the next function is to raise funds from various sources. Funds can be raised through issue of shares, debentures, loans from financial institutions, banks, or retained earnings. The finance manager selects the most economical and suitable source of finance for the business.

5. Investment Decisions

Investment decision relates to the proper utilization of funds in various assets. It includes decisions regarding investment in fixed assets (capital budgeting) and current assets. Sound investment decisions ensure optimum use of funds and increase profitability of the business.

6. Dividend Decision

Dividend decision involves deciding how much profit should be distributed to shareholders as dividend and how much should be retained in the business for future growth. A balanced dividend policy satisfies shareholders and also ensures availability of funds for expansion and development.

7. Management of Working Capital

Working capital management deals with managing current assets and current liabilities such as cash, inventory, debtors, and creditors. Efficient working capital management ensures liquidity, smooth business operations, and ability to meet short-term obligations.

8. Financial Control

Financial control involves comparing actual performance with planned performance and taking corrective measures when deviations occur. Tools such as budgets, ratio analysis, and financial statements are used to ensure effective use of financial resources.

The functions of financial management play a crucial role in the success of a business. Proper financial planning, efficient utilization of funds, and effective control help in achieving the overall objectives of the organization and maximizing shareholders' wealth.