

B.COM SEM - IV
MJC- 5 (BUSINESS FINANCE)
TOPIC - MEANING OF FINANCIAL DECISIONS

Meaning of Financial Decisions

Financial decisions refer to the decisions taken by the financial manager regarding the procurement, allocation, and management of funds in an organization. These decisions are crucial for the smooth functioning, growth, and survival of a business. In simple words, financial decisions determine how a company will raise money, how it will use that money, and how profits will be distributed among stakeholders.

Every business requires funds to start, operate, and expand its activities. The financial manager must decide the most appropriate sources of finance, such as equity shares, preference shares, debentures, loans, or retained earnings. Choosing the right source of finance is important because it affects the cost of capital, risk level, and overall financial stability of the company. This type of decision is known as a financing decision.

Another important financial decision is the investment decision. It involves deciding where to invest the available funds to earn maximum returns. The company may invest in fixed assets such as land, building, machinery, and equipment, or in current assets like inventory and receivables. Investment decisions are also called capital budgeting decisions when they relate to long-term assets. These decisions require careful analysis because wrong investments can lead to losses and financial difficulties.

The third major financial decision is the dividend decision. After earning profits, the company must decide how much profit should be distributed to shareholders as dividends and how much should be retained in the business for future growth. A balanced dividend policy helps in maintaining shareholder satisfaction as well as ensuring adequate funds for expansion.

Financial decisions are interconnected and directly influence the profitability, liquidity, and risk of a business. Proper financial planning and control are essential to make sound financial decisions. These

decisions are based on various financial tools and techniques such as ratio analysis, cash flow analysis, cost of capital, and budgeting.

In conclusion, financial decisions are the backbone of business finance. They involve careful planning regarding raising funds, investing funds wisely, and distributing profits effectively. Sound financial decisions help in maximizing the value of the firm and achieving long-term financial stability and growth.