



# WELCOME TO THE WORLD OF FINANCIAL MANAGEMENT

*By CA Mrugesh Madlani*

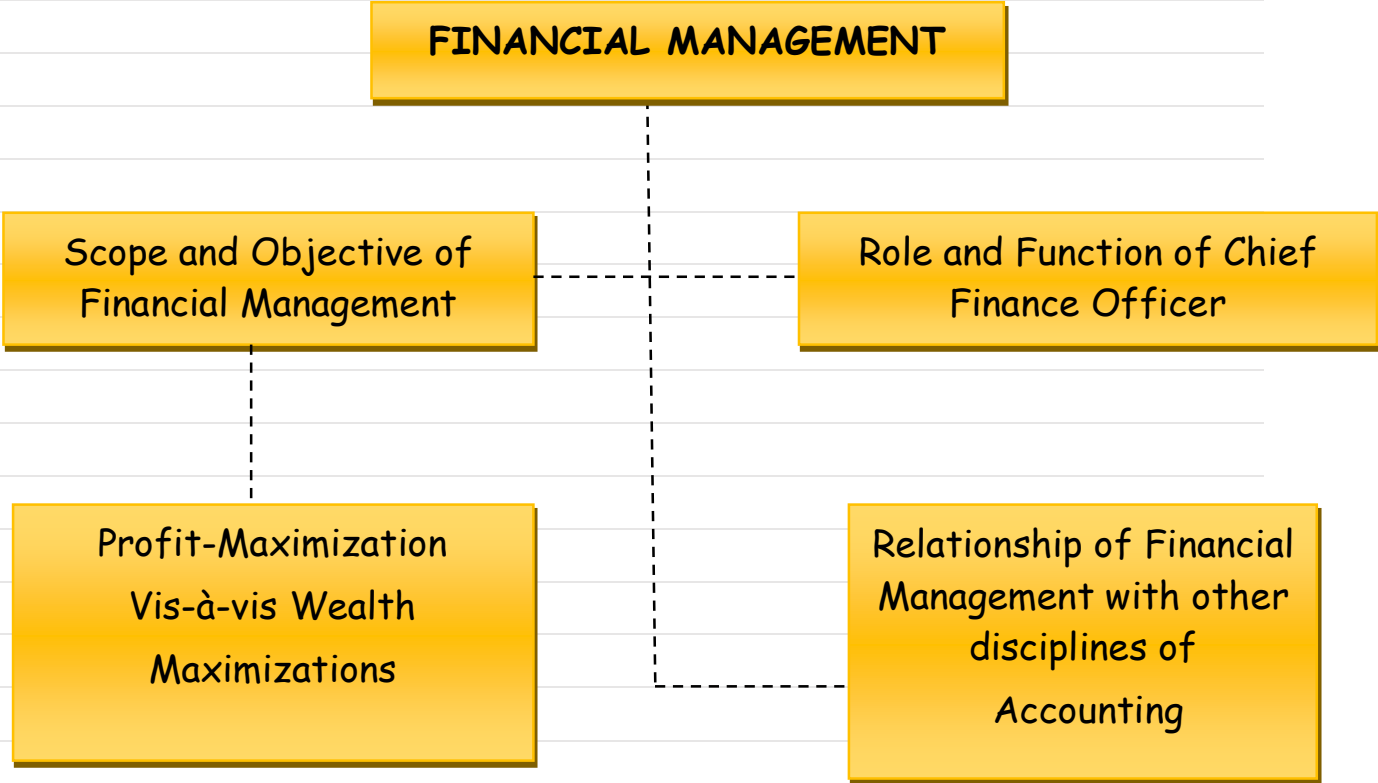
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# TABLE OF CONTENTS

01	Scope and Objective of Financial Management	1.1 - 1.19
02	Types of Financing	2.1 - 2.36
03	Financial Analysis and Planning - Ratio Analysis	3.1 - 3.28
04	Cost of Capital	4.1 - 4.30
05	Financing Decisions - Capital Structure	5.1 - 5.13
06	Financing Decisions - Leverage	6.1 - 6.13
07	Investment Decisions	7.1 - 7.27
08	Dividend Decisions	8.1 - 8.18
09	Management of Working Capital 1. Working Capital Management 2. Treasury and Cash Management 3. Management of Receivables 4. Management of Payables	9.1 - 9.43

**1** **SCOPE AND OBJECTIVES OF FINANCIAL MANAGEMENT**

**CHAPTER OVERVIEW**



**Q.1** What do you mean by Financial Management? Explain its basic aspects.

**Explain the two Basic functions of Financial Management**

**Ans.** Financial Management is a managerial activity that **deals with planning and Controlling Of a Firm's financial resources**. Financial Management deals with Procurement of funds and effective utilization of funds in business. The two basics aspects / functions of Financial Management are explained below -

Aspect	1. Procurement of funds	2. Effective utilization of funds
Also called	<b>Capital structure</b> or financing decisions	<b>Investing</b> or investing decisions
Types	Funds can be obtained from various sources: (a) Long term sources (Equity, preference capital, debentures, term loans, etc.) (b) Short term sources (trade credit, short term advances, bank finance for working capital, etc.)	Funds may be invested / utilized in - (a) Fixed assets, capital projects and other long-term investment, (b) Current assets, viz. stock, debtors, and other short-term investment
Description	Funds procured from various sources have <b>different characteristics</b> in term of risks, cost of funds obtained.	While investing/ utilizing the funds, the objectives are <b>maximized on investment</b> .
Objectives	While procuring funds from different sources, the objective is <b>to minimize the cost of funds obtained</b> .	While <b>investing/</b> utilized of funds, the <b>objective is to maximized return</b> on investment.
Activity	Procurement of funds involved the following - (a) Identification of sources of finance. (b) Determination of finance Mix. (c) Raising the funds. (d) Division of profit between dividends and retention of profits i.e., internal funds generation, and (e) Proper balancing of risk, cost and control factors.	Investing / utilization of funds involved- (a) Identification of different investment and business opportunities and their returns, (b) Evaluation of various project based on different criteria/ factors. (c) Balancing between fixed assets and need for adequate working capital, etc.