SCOPE AND OBJECTIVES OF FINANCIAL MANAGEMENT

Q. What is financial Management?
Effective utilisation of economic resources of an org.

Q. F.M is related with?
Investment decision - where to invest
financing decision - from where to borrow funds
Dividend decision - how much earning to be retained and distributed.
Working capital management - how to manage working capital.

Q. Characteristics of F.M?
> Essential part of Business management
> Continous Administrative function
> Scientific & Analytical.
> Centralized Nature.
> Different from Accounting functions.

Q. Functions of F M?
> Procurement of funds - obtained from various sources - ESC, PSC, Debts, Deb^n
> Effective utilisation of funds - Return > Cost of capital

Q. Evolution of financial management?
> Traditional phase > rare, occasionaly.
> Transitional phase > Day to day problems
> Modern phase > still going on.

Q. Objective of F.M?
> Profit maximization - Effective allocation of resources in which term profitibility is most desirable.
> Limitations - Ignore risks, ~~Angruty~~ Ambiguity, i ignore time value of money

Wealth maximization - maximize market value, increase the present value of economic profit.

Q. Wealth Maximization vs Profit maximization.

Wealth Maximization	Profit maximization.
Consider all cash flow & effect on ESC, dividend	Don't consider effect on ESC dividend.
No ambiguity in measurement of cash flow.	Lots of ambiguity in measurement of cash flow.
Shareholder prefer increase in wealth	Shareholder prefer in increase rather then wealth.
Firm may pay regular dividend to shareholder	Firm refrain from dividend payment.

Q. FMD for achievement of Wealth maximization
Investment decision, Financing decision, Dividend decision.
All three are inter related with each other.

Q. Risk- return trade off
Maximize firms share by maintaining balance - between risk and return.

Q. Financial Distress.
where cash inflows are inadequate to meet current obligations of firm.

Q. Insolvency :-
If financial distress continuous for longer time, it leads to insolvency.

Q. Agency problem
Difference in interest of owner and management and behavioural problem on part of management leads to agency problem

Q. Agency cost -

Cost to reduce agency problems