DEPARTMENT OF COMMERCE AND FINANCIAL STUDIES
BHARATHIDASAN UNIVERSITY, TIRUCHIRAPPALLI – 620024

MBA (Financial Management)

Course Code and Name: FMFC1/24 – CORPORATE FINANCE

Unit – I/ Topic: INTRODUCTION TO FINANCIAL MANAGEMENT

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Scheme of Presentation

- Scope of Financial Management
- Objectives of Financial Management
- Functions of Finance Manager
- Basic Areas of Finance
- Financial Management Decisions
- Goal of Financial Management
- Do Managers Act in The Shareholders’ Interests?
- Cash Flows between The Firm and The Financial Markets
- Sources of Long term Source of Finance

SCOPE OF FINANCIAL MANAGEMENT

- **Financial Management and Economics**
- **Financial Management and Accounting**
- **Financial Management or Mathematics**
- **Financial Management and Marketing**

Financial Management and Economics

- Economic concepts like micro and macroeconomics are directly applied with the financial management approaches. Investment decisions, micro and macro environmental factors are closely associated with the functions of financial manager.

Financial Management and Accounting

- Accounting records includes the financial information of the business concern. Hence, we can easily understand the relationship between the financial management and accounting.
- **Financial Management or Mathematics**
- Modern approaches of the financial management applied large number of
- mathematical and statistical tools and techniques.,

- They are also called as econometrics. Economic order quantity, discount factor, time value of money present value of money, cost of capital, capital structure theories, dividend theories, ratio analysis and working capital analysis are used as mathematical and statistical tools and techniques in the field of financial management.

Financial Management and Marketing

- Produced goods are sold in the market with innovative and modern approaches. For this, the marketing department needs finance to meet their requirements. The financial manager or finance department is responsible to allocate the adequate

  finance to the marketing department

OBJECTIVES OF FINANCIAL MANAGEMENT

- Effective procurement and efficient use of finance lead to proper utilization of the finance by the business concern. It is the essential part of the financial manager. Hence, the financial manager must determine the basic objectives of the financial management.

- Objectives of Financial Management may be broadly divided into two parts such as:

1. Profit maximization

- 2. Wealth maximization

Profit Maximization

- Main aim of any kind of economic activity is earning profit. A business concern is also functioning mainly for the purpose of earning profit. Profit is the measuring techniques to understand the business efficiency of the concern.

Wealth Maximization

- Wealth maximization is one of the modern approaches, which involves latest innovations and improvements in the field of the business concern. The term wealth means shareholder wealth or the wealth of the persons those who are involved in the business concern. Wealth maximization is also known as value maximization

FUNCTIONS OF FINANCE MANAGER

- Finance function is one of the major parts of business organization, which involves the permanent, and continuous process of the business concern. Finance is one of the interrelated functions which deal with personal function, marketing function, production function and research and development activities of the business concern.

1. **Forecasting Financial Requirements**

It is the primary function of the Finance Manager. He is responsible to estimate the financial requirement of the business concern.

Acquiring Necessary Capital

- After deciding the financial requirement, the finance manager should concentrate how the finance is mobilized and where it will be available. It is also highly critical in nature.

Investment Decision

- The finance manager must carefully select best investment alternatives and consider the reasonable and stable return from the investment. He must be well versed in the field of capital budgeting techniques to determine the effective utilization of investment.

Cash Management

- Present days cash management plays a major role in the area of finance because proper cash management is not only essential for effective utilization of cash but it also helps to meet the short-term liquidity position of the concern

Key Concepts and Skills

Have a good understanding of:

- The basic types of financial management decisions and the role of the financial manager
- The goal of financial management
- The financial implications of the different forms of business organization
- The conflicts of interest that can arise between owners and managers

Basic Areas of Finance

1. Corporate finance = Business Finance
2. Investments
3. Financial institutions
4. International finance

Investments

- Work with financial assets such as stocks and bonds
- Value of financial assets, risk versus return, and asset allocation
- Job opportunities
  - Stockbroker or financial advisor
  - Portfolio manager
  - Security analyst

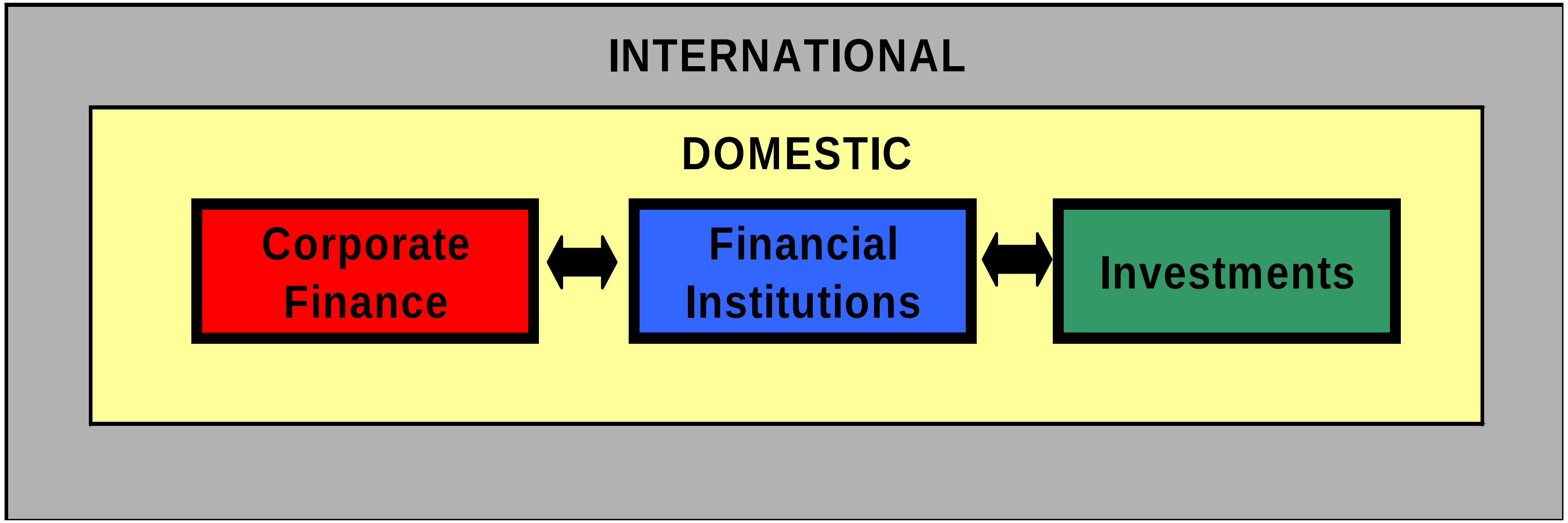
Financial Institutions

- Companies that specialize in financial matters
  - Banks – commercial and investment, credit unions, savings and loans
  - Insurance companies
  - Brokerage firms
- Job opportunities

International Finance

- Financing may allow you to work in other countries or at least travel on a regular basis
- Need to be familiar with exchange rates and political risk
- Need to understand the customs of other countries; speaking a foreign language fluently is also helpful

Basic Areas Of Finance



Financial Manager

- The top financial manager within a firm is usually the Chief Financial Officer (CFO)
  - Treasurer – oversees cash management, credit management, capital expenditures, and financial planning
  - Controller – oversees taxes, cost accounting, financial accounting, and data processing

Financial Management Decisions

- Capital budgeting
  - What long-term investments or projects should the business take on?
- Capital structure
  - How should we pay for our assets?
  - Should we use debt or equity?
- Working capital management
  - How do we manage the day-to-day finances of the firm?

Goal of Financial Management

- What should be the goal of a company?
  - Maximize profit?
  - Minimize costs?
  - Maximize market share?
  - **Maximize the current value per share of the company's existing stock**
  - ***Maximize the market value of the existing owners' equity***

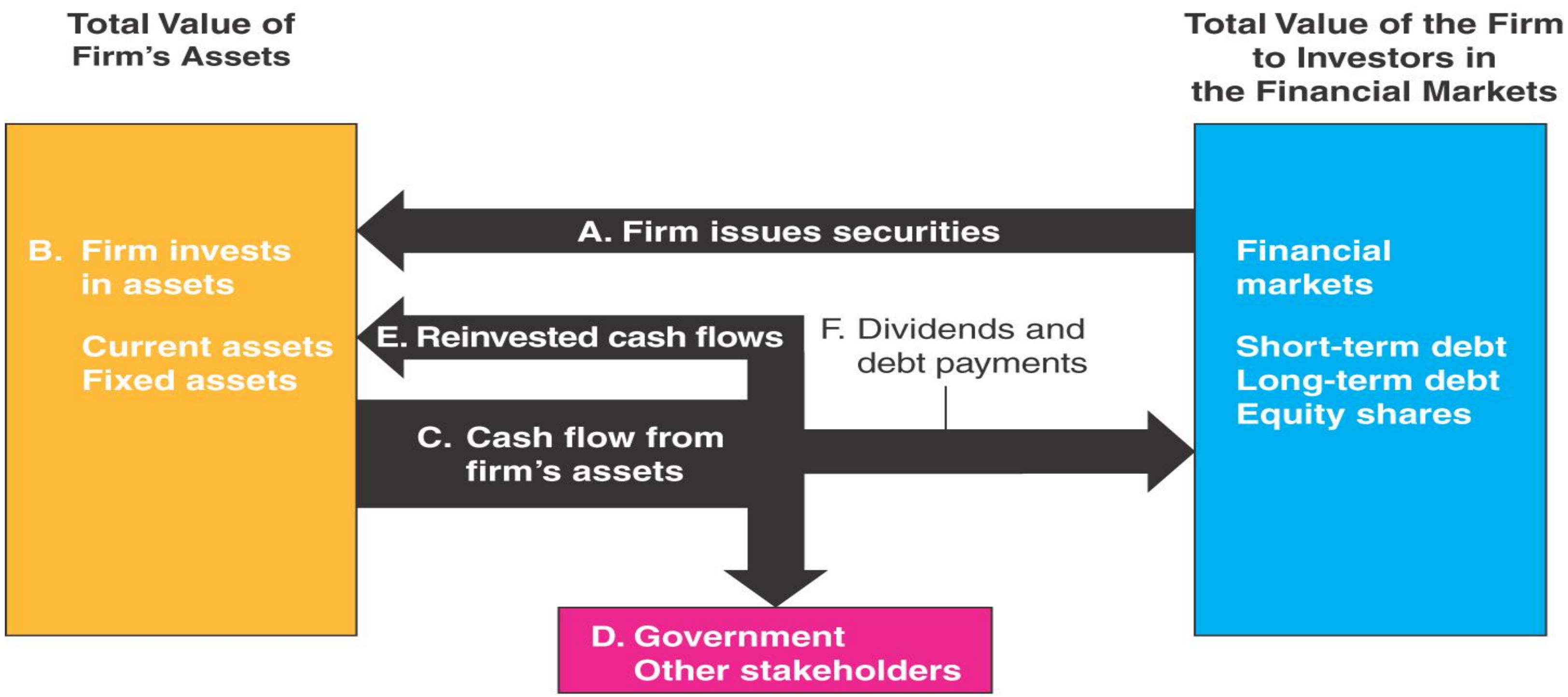
The Agency Problem

- Agency relationship
  - Principal hires an agent to represent its interests
  - Stockholders (principals) hire managers (agents) to run the company
- Agency problem
  - Conflict of interest between principal and agent
- Management goals and agency costs

Do Managers Act in the Shareholders’ Interests?

- Managerial compensation
  - Incentives can be used to align management and stockholder interests
  - Incentives need to be carefully structured to insure that they achieve their goal
- Corporate control
  - Threat of a takeover may result in better management
- Other stakeholders

Cash Flows Between the Firm and the Financial Markets
Figure -1



A. Firm issues securities to raise cash.
B. Firm invests in assets.
C. Firm's operations generate cash flow.
D. Cash is paid to government as taxes. Other stakeholders may receive cash.
E. Reinvested cash flows are plowed back into firm.
F. Cash is paid out to investors in the form of interest and dividends.

Long term source

Equity Capital
Retained Earnings
Preference Capital
Term Loan
Debentures

Equity capital is funds paid into a business by investors in exchange for common or preferred stock. this represents the core funding of a business, to which debt funding may be added.

Retained earnings are the profits that a company has earned to date, less any dividends or other distributions paid to investors. this amount is adjusted whenever there is an entry to the accounting records that impacts a revenue or expense account.

Preference shares, more commonly referred to as preferred stock, are shares of a company's stock with dividends that are paid out to shareholders before common stock dividends are issued. if the company enters bankruptcy, the shareholders with preferred stock are entitled to be paid from company assets first.

is repaid in regular payments over a set period of time. term loans usually last between one and ten years, but may last as long as 30 years in some cases. a term loan usually involves an unfixed interest rate that will add additional balance to be repaid.

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