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Type and Scope of Financial Management: A Review

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Abstract

When it comes to running a business, money matters. In order to achieve the company's goals and objectives, financial management is the process of planning, organising, controlling, and monitoring financial resources. Financial activities, including collecting money, utilising funds, accounting for payments and analysing risk, may all be kept under control by adopting this method. Managing a company's finances is the focus of financial management, according to this definition. Good financial management ensures that an organisation has access to high-quality fuel and regular service, both of which are critical to its success.

Key words: financial, enterprise, partnership, Management etc.

Introduction

Management ideas may be used to efficiently manage an organization's financial resources. Planning, organising, directing, and managing an organization's financial procedures is all that is required to properly manage an organization's finances Financial management is the process of overseeing a company's revenue, expenses, and assets in order to maximise profitability and ensure long-term sustainability. The management of a company's finances is important to its success. A corporation's "backbone" is its financial resources. Managing money is all about ensuring that funds are obtained and used appropriately. For the firm to obtain the required funds, the finance manager must decide the proper capital structure, which involves calculating the ideal mix of debt and equity. In financial management, ensuring that the company has enough money and that it obtains the best potential return on its investments is one of the most crucial components.

Definition

According to Soloman:

"*Financial Management is concerned with the efficient use of important economic resource , namely capital funds.*

According to S.C.Kuchhal:

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Financial management deals with procurement of funds and their effective utilization in the business."

Scope of Financial Management

- **Investment decision-**

Every investment choice made by a firm is managed by financial management. Many factors must be taken into consideration when deciding whether or not to invest money in a given project. A company's managers are in charge of choosing how the company's available capital should be allocated to maximise profits.

- **Working Capital decision-**

Financial management also involves making the right working capital choices. When making these judgments, it is important to remember that they are based on investments in present assets or obligations. Decisions on working capital and short-term borrowing are intertwined. Cash, inventory, receivables and short-term securities are examples of current assets, whereas current liabilities include bank overdrafts, debts owed, and other debts that must be paid.

- **Financing decision-**

Choosing how to generate the needed cash from long-term or short-term resources is an important part of the financing process. The financial manager is responsible for ensuring that the company's capital structure is the best it can be in order to increase its market worth. To maximise shareholder returns, they must maintain a healthy equity-to-debt ratio.

- **Dividend decision-**

It is the responsibility of financial managers to make all of the company's dividend choices. These considerations revolve around deciding whether to distribute or keep firm income in the form of dividends. Out of the available profit, the finance manager should determine the optimal dividend distribution ratio. He should think about how the company may expand and flourish, and he should take advantage of those chances while still keeping a healthy profit margin.

- **Ensures liquidity-**

Financial management also has a vital role to play in ensuring that a business has enough liquidity. The finance manager is responsible for ensuring that an organisation has a steady source of finances. He keeps a close eye on all incoming and outgoing funds to ensure that there is never an underflow or an overflow. Financial management is concerned with ensuring that an organization's liquidity is at an optimal level.

- **Profit management–**

The goal of financial management is to increase the company's profit. Through careful monitoring and the establishment of appropriate pricing policies, it strives to reduce the costs of different operations. In order to find the cheapest capital, the financial manager analyses all of the available options and weighs the pros and cons of each of them.

Nature of Financial Management

- **Estimates Capital Requirements-**

The role of financial management is to anticipate the amount of money needed to operate a company. It calculates the amount of working and fixed capital needed to carry out all of a company's operations. The financial manager develops a budget for a certain period of time, which is used to assess capital needs.

- **Decides capital structure-**

An organization's ability to maximise efficiency and profitability depends on the correct capital structure. Common stock, preferred equity, and debt all play a role in this calculation. To keep the cost of capital as low as possible, the right mix of debt and equity must be struck.

- **Select sources of Fund-**

All organisations face a critical choice when it comes to funding. For the purpose of generating money, several options are accessible, such as issuing stock, issuing bonds, issuing debentures, securing venture capital, securing funding from financial institutions, and so on. Every company should do a thorough analysis of the many funding options available and choose the one that is the most cost-effective and has the least risk.

- **Selects investment pattern-**

The allocation of cash into viable investment opportunities is critical after funds have been secured. The safety, profitability, and liquidity of an investment proposition should all be carefully considered. Before putting any money into it, it should be thoroughly analysed for both risk and reward.

- **Raises Shareholders value-**

The goal of financial management is to increase shareholder value. To maximise shareholder value, it tries to reduce the company's operating costs and increase its earnings. It is the job of a finance manager to get inexpensive cash from a variety of sources and invest them in the most lucrative areas possible.

- **Management of cash-**

A company's financial management team keeps tabs on every dollar coming in and going out. It is the responsibility of finance managers to ensure that all cash flows are properly recorded and accounted for. They keep an eye out for things like a cash shortage or a cash excess in the company.

- **Apply financial controls-**

Financial management has an important role to play in the implementation of financial controls in the workplace. It aids in limiting the real operating costs of the business and ensuring that it makes the anticipated earnings. There are a number of steps involved in this, including establishing corporate standards in advance, comparing actual costs or performance to those standards, and implementing any necessary corrective actions.

Three Types of Financial Management

The functions above can be grouped into three broader types of financial management:

- Financial planning, which focuses on determining the company's short- and long-term financial demands. What is the best place to invest capital money in order to foster economic development?

- The capital structure, which determines how operations and/or expansion are paid for. Capital structure. A low interest rate loan may be the best option. Alternatively, a corporation may look for private equity capital, sell assets like real estate, or sell ownership in the company.
- With regard to day-to-day operations, working capital management is concerned with ensuring that the company has adequate money to pay employees and purchase raw materials for manufacturing.

Financial management important

- There are several benefits to using this management style.
- helps organisations arrange their finances and get funding;
- Ensures that money obtained or gained are put to the best use possible;
- Helps businesses make key financial choices;

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- Improves the profitability of businesses;
- Boosts the total worth of businesses.
- Assures a steady flow of revenue.

Conclusion

A company's financial health is directly linked to its long-term viability. There is always a limit to the amount of money that can be spent. On the other hand, there is no limit to the number of desires. In order to avoid financial disaster, a company must manage its money effectively. Financial resources are being managed in accordance with management principles. In the corporate world, finance is sometimes referred to as the "backbone." Strategic financial management is the process of planning, organising, directing, and managing financial activities.

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