International Journal of Aquatic Science
ISSN: 2008-8019
Vol 14, Issue 01, 2023

Role of Financial Management in Business

Prof. Jayanta Roy[1], Prof. Divyanshu Swarnkar[2]

[1.2]*Department of Commerce, D. P. Vipra College Bilaspur (C.G.)*

Email: [1]divyanshu.soni0806@gmail.com, [2]jayanta161270@gmail.com

Abstract: As we all know that financial management play's role in the development of business enterprises as well as the development of a country's economic condition.Financial management has a very special place in the operation system, because of close connection with finance and operation, technology, assets, employment force, etc. The progressive financial director needs to be flexible in order to adapt the changing economic conditions. The success and capability of any business enterprise depends upon the acquisition and allocation of finance in the different sectors of the enterprise. The main motive of financial management is to maximize the value of stocks by making opinions which will result in the increase the value of enterprise.

Keywords: Financial Management, Acquisition and Allocation of Funds, Value Maximization

1. INTRODUCTION

Business is facing a lot of problems in searching best method of acquisition and allocation of funds needed for operating economic activities. In today's competitive environment, enterprise try to allocate the funds carefully for achievement of their objectives. Business Enterprise uses a lot of tools and techniques for acquiring funds at minimum cost and allocates those funds where business enterprises get maximum profit. Nowadays, all those tools and techniques which are used for acquisition and allocation of funds are studied in separate subject called "Financial Management".

In today's world, the expansion of market is necessary because of changing environment which leads to difficulty in operation of enterprise, due to which management of business enterprise is facinga lot of problems in operation, which will result in achievement of business objective. This implies that it is necessary to set up and ensure the smooth functioning of company management, which, in addition to numerous functions, offers the possibility of preventively exceeding potential limits in the achievement of goals, but also effectivesolution of existing problems in their business.In order for the operation of a particular company to achieve a defined thing or several of them, with planning and control, it is necessary that acceptable opinions are made in order to anticipate the functioning of the enterprise in the future, and therefore harmonize its numerous conditionings within the tasks. Financial management should ensure the achievement of enterprise objects through acquisition and allocation of funds.

Objectives of Financial Management:

1. **Profit Maximisation Objectives:** The objective of financial management of the business is to maximise the profit. Some experts hold the opinion that when finance manager is

considering the investment, financing and other related decisions, he should select that alternative which may maximise the profit. The guiding principle is to select assets, projects, and decisions which are profitable and reduce those which are not.

2. **Wealth Maximisation Objectives:** Wealth maximisation objective is widely recognised as an appropriate operational decision criterion for financial management decisions. It is also known as Value Maximisation Objective (V.M.O) or Net Present Worth Maximisation. Value maximisation objective is based on the concept of cash flows, i.e., benefits are measured in terms of cash inflows and costs are expressed in terms of cash outflows. Thus, according to wealth maximisation objective business operations should be conducted in such a way as to ensure maximum net present value to the shareholders.

Basic Decisions Made in Financial Management

1. **Investment Decisions:** Investment decisions are concerned with selecting the right type of assets in which funds will be invested by the firm. The assets which can be acquired fall into two groups: (i) Fixed Assets which would yield a return over a period of time in future, and (ii) Current Assets which are in normal course of business operations convertible into cash usually within a year. Investment Decisions of the firm are of two types- long-term investment decisions popularly known as 'Capital Budgeting' and short-term investment decisions popularly known as 'Current Assets Management' or 'Working Capital Management'.

2. **Financing Decisions:** This decisionrelates with how to raise fresh capital to finance for survival, growth and development of a commercial enterprise. The two important sources of financing are debt and equity. Debt is fixed interest source of financing and Equity is variable dividend source of financing. It is important for financial manager to decide the appropriate mix debt and equity in such a way as to maximize the shareholder's wealth. It's profitable to use debt to finance the business of an enterprise until it reaches a rate of return lesser than the weighted interest rate for the assumed debt of the enterprise. Financing Decisions involves capital structure decision along with its theory.

3. **Dividend Decisions:** The third major decision of financial management is the decision relating to declaration and payment of dividend. Financial manager has to advise the top management as what portion of the profits should be distributed as dividend to the shareholders and what portion of the profits should be retained in the business for further investment.The decision should be taken keeping in view the overall ideal of maximizing shareholders wealth.

Objective of the study
1. To decide appropriate mix of source of financing.
2. To decide what amount of profit is to be distributed and retained.
3. To decide the area of investment where the funds is to be assigned.

Literature Review
MIHAJLOVIĆ, TADIN and GORDIĆ (2020) article entitled **"**The role of financial management in the company" revealed thatfinancial management has a special place in the management system, because of the close connection between finance and management,

technology, resources, personnel, etc. The main motive of financial management is to maximize the shareholder’s funds.

Brijlal, Enow, Isaacs (2014) article entitled “The use of financial management practices by small, medium and micro enterprises: a perspective from South Africa” revealed that It was set up that further than half the SMMEs examined use external account staff to prepare account reports and further than 60 calculate on external account staff to interpret and use counting information. The policy makers, business support associations, banks and academic institutions need to concentrate on educating SMMEs more effectively in fiscal operation, thereby mollifying the threat of cash inflow problems and business failure.

2. CONCLUSION

The financialmanagement of a reality takes care of the acquisition, financing and management of resources,bearing in mind the primary ideal of the business. Consequently, the mainresponsibility of the financialmanageris investment, financing and asset operation decisions. Financial and investment decision are interrelated. Financing Decisions are related to raising finances for investments and regular operations, that is, choosing a capital structure, which means that the decision can have long- term consequences. It's important to note that financingdecisions are grounded on the acquisition of cash to settle current arrears, while investment decisions at certain short moments to deal with how to invest surplus finances in various areas. The key to making a decision is managing risk. In doing so, the motive of investment also determines the importance of financing to be handed.The success and capability of any business enterprise depends upon the acquisition and allocation of finance in the different sectors of the enterprise with the motive to maximize the value of stocks by making investments.

3. REFERENCES

[1] Financial Management Dr. S.P. Gupta, Sahitya Bhawan Publications: Agra.
[2] https://www.researchgate.net/publication/346162568_The_role_of_financial_management_in_the_company