Meaning, Role & Objectives of Financial Management

1 Mark Questions

1. Define financial management. (Foreign 2014; All India 2011)

Ans. According to Weston and Brighan, 'Financial management is an area of financial decision-making harmonising individual motives and enterprise's goals'.

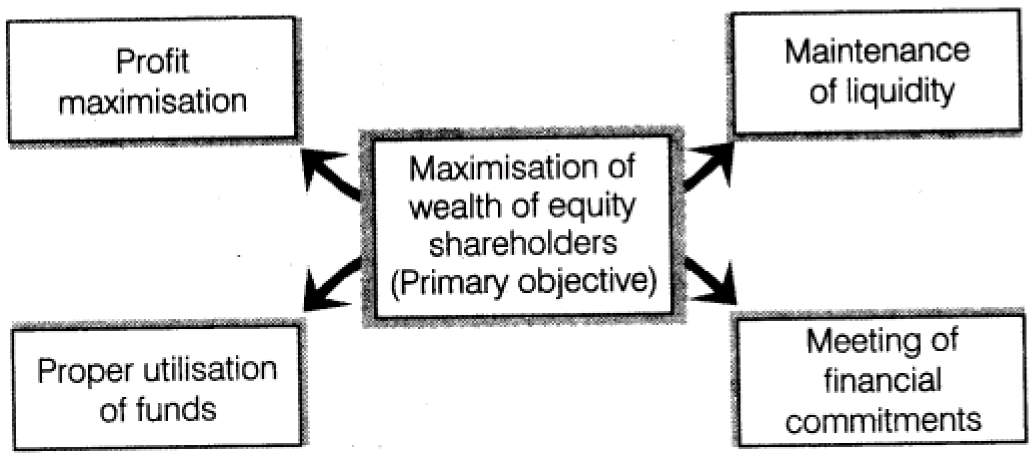
2. What is the primary objective of financial management? (Delhi 2013)

Ans. The primary aim of financial management is to maximise shareholders' wealth.

3 Marks Questions

3. Wealth maximisation is the primary objective of financial management. Explain. (Compartment 2014)
or
What is meant by financial management? State the primary objective of financial management. (All India 2012; Delhi 2012)
or
Explain the meaning and objective of financial management. (Delhi 2010)
or
State the objectives of financial management.(Delhi 2009)
or
What do you understand by the term 'financial management'? What is the objective of financial management? (Delhi 2009 c)

Ans. Financial management is concerned with optimal procurement as well as the usage of finance. For optimal procurement, different available sources of finance are identified and compared in terms of their costs and associated risks.
The primary objective of financial management is to maximise shareholders' wealth. This means maximisation of the market value of equity shares. Increase in market value of shares depends on the financial decisions taken by the firm. Market price of the shares is the index of the capital invested. If the market price of the shares increases, it can be said that capital invested by the shareholders has been appreciating. On the contrary, fall in the market price of the shares has an adverse effect on their wealth.
The other main objectives of financial management are:
(i) Ensuring availability of funds at reasonable cost.
(ii) Ensuring effective utilisation of funds.
(iii) Ensuring safety of funds by creating reserves and reinvestment of profits.



4. Sound financial management is the key to the prosperity of business. Explain. (HOTS; All India 2009)
or
Explain, how does proper financial management helps in the growth of business? (All India 2009)

Ans. Sound financial management is the key to the prosperity of business because of the following advantages: (Any three)
(i) It helps in obtaining sufficient funds at minimum cost.
(ii) Ensures effective utilisation of funds. It tries to invest funds in various assets with a view to maximise the return on shareholders' investment.
(iii) Tries to generate sufficient profits to finance expansion and modernisation of the enterprise and secure stable growth.
(iv) Ensures safety of funds through creation of reserves, re-investment of profits, etc.

4/5 Marks Questions

5. Give the meaning of Investment and financing decisions of financial management. (All India 2014)

Ans. Investment decisions It involves careful selection of assets in which funds are to be invested. Decisions, relating to investment in fixed assets are known as capital budgeting, whereas those concerning investment in current assets are called working capital decisions. A business needs to invest funds for setting up new business, for expansion and modernisation. Investment decision is taken after careful scrutiny of available alternatives in terms of costs involved and expected return. These decisions are crucial in nature due to following reasons:
(i) These are long-term decisions and can be reversed only at huge costs.
(ii) These generally involve commitment of huge funds.

(iii) These have a significant effect on the profitability and future of the business.

Financing decisions It is concerned with the decisions of how much funds are to be raised from which long-term source, i.e. by means of shareholders' funds or borrowed funds.
Shareholders' funds include share capital, reserves and surplus and retained earnings, whereas borrowed funds include debentures, long-term loans and public deposits.

6. Explain the concept and the objective of financial management. (All India 2013)

Ans. Concept of financial management Financial management is concerned with optimal procurement as well as the usage of finance. For optimal procurement, different available sources of finance are identified and compared in terms of their costs and associated risks. The primary objective of financial management is to maximise shareholders' wealth. This means maximisation of the market value of equity shares. Increase in market value of shares depends on the financial decisions taken by the firm. Market price of the shares is the index of the capital invested. If the market price of the shares increases, it can be said that capital invested by the shareholders has been appreciating. On the contrary, fall in the market price of the shares has an adverse effect on their wealth.

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