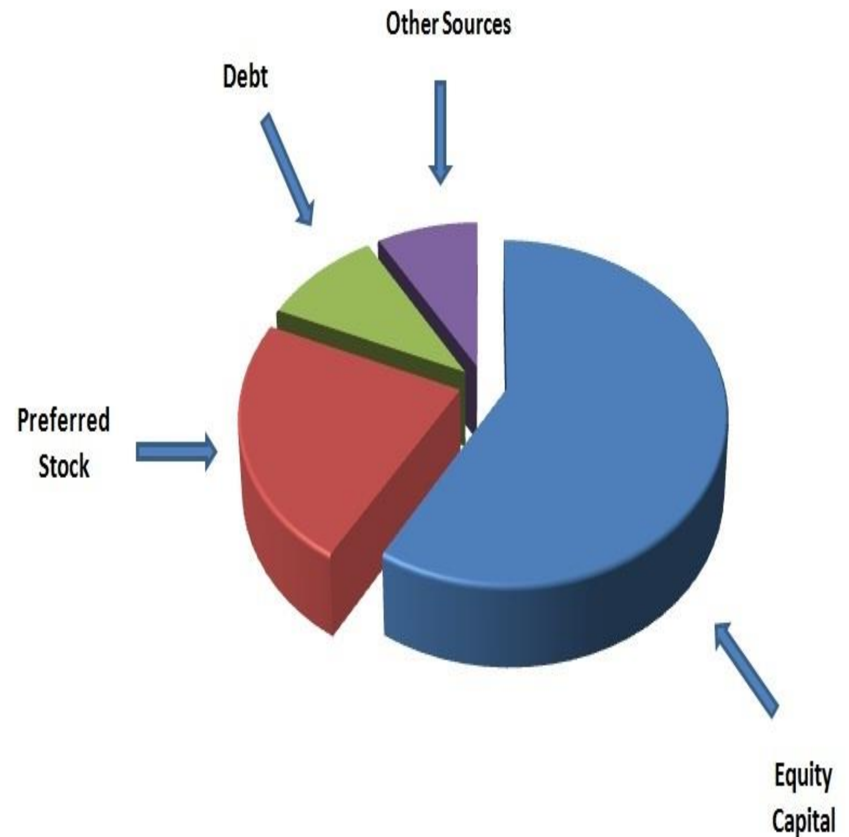
FUNCTIONS OF FINANCIAL MANAGEMENT

Estimation of the capital required

- The primary function of managing business finances is estimating the amount of capital required. Estimating the capital is essential to determine how much capital a firm requires to purchase fixed assets, modernise and expand the business and meet the working capital requirement. A financial manager estimates funds required for long-term and short-term purposes during this process. Accurately estimating the capital required can help in increasing the company's revenue capacity.

Determination of the capital structure

- After estimating the capital required, financial managers decide on the capital composition and structure. This might involve short-term and long-term debt-equity analysis. Through this analysis, they determine the accurate proportion of debt and equity. Determination of capital structure helps maximise shareholders' wealth and minimise capital costs.



Choice of the source of funds

- The next step is to choose the source of funds. Apart from using equity capital, a financial manager can choose other funding options like preferred shareholders, banks and financial institutions, debentures, public deposits and other third-party sources. Usually, financial managers consider the advantages and disadvantages of each source and period of financing.

Procurement of financial resources

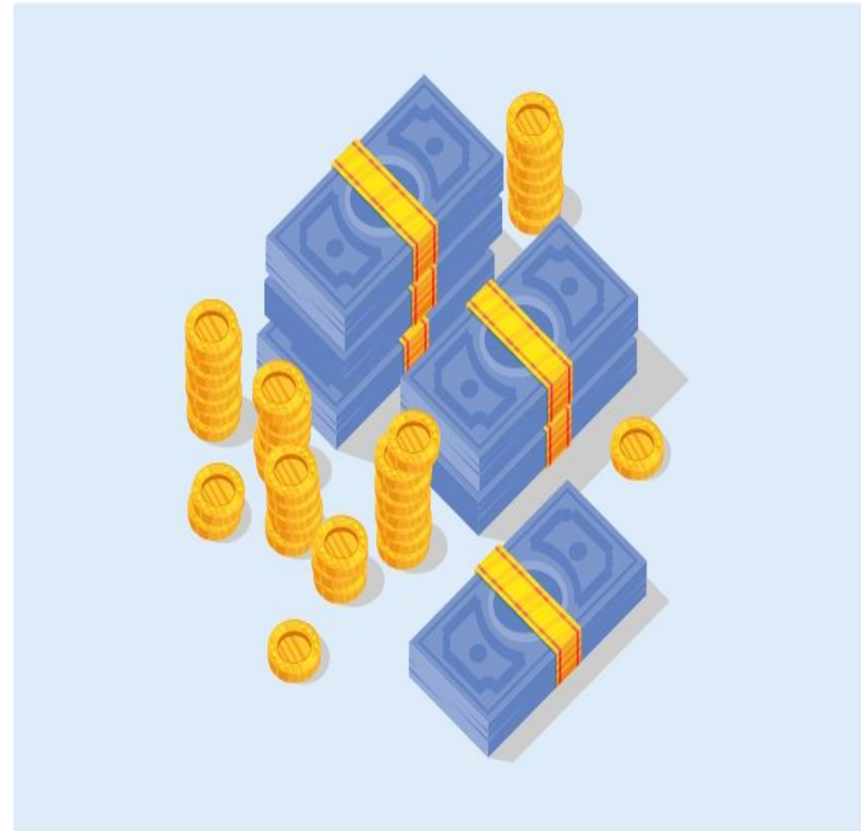
- The acquisition of funds by financial managers is not solely dependent on the cost of raising funds but also on other factors, such as the choice of investors, market conditions and government policy. After choosing a funding option, managers take various steps to procure it. Procurement of funds might require some additional steps, such as issuing a prospectus and negotiating terms with creditors and financial institutions.

Utilisation of funds

- Upon procuring the funds, financial managers invest in various tangible and intangible assets to maximise return on investment. These managers can allocate funds into various ventures to ensure safety on investment. They invest capital in a way that is profitable. When taking such allocation and investment decisions, the manager focuses on three principles, including liquidity, safety and profitability.

Management of cash

- A company requires cash to maintain enough stock, purchase raw materials and pay current liabilities. After distributing the surplus funds, a finance manager decides on cash management. It involves forecasting cash inflows or outflows to ensure the company never faces a shortage or surplus of funds. They also ensure that the company has adequate cash for different purposes like paying salaries, utility bills and creditors.



Financial control

- The last function of financial management is ensuring financial control of the company's finances. Usually, the return on investment (ROI) provides a holistic overview of a company's financial performance. Using techniques like financial forecasting, budgetary control, ratio analysis, cost and profit control and internal audits, managers determine the financial performance. Also, the financial control tells how much money a company has, what is the source of that money and what expenses the company incurred during a financial year or specific accounting period.