Department of Management Studies

23BAT611 – FINANCIAL MANAGEMENT

UNIT I

TWO MARKS

1. Define Financial Management.

   Financial Management means planning, organizing, directing and controlling the financial activities such as procurement and utilization of funds of the enterprise.

2. Write any four functions of finance.

   - Business Function
   - Focus on all activities
   - It is not possible to substitute
   - Money is continuous

3. What is investment decision?

   Investment decision refers to the decisions that involve the investment of various resources of the firm to gain the highest possible return on investment for their investors. An investment decision is categorized as a long-term and short-term investment decision.

4. What is financing decision?

   Financing decision is concerned with raising funds from which long-term sources, i.e., through shareholders funds or borrowed funds. Shareholders funds include share capital, reserves and surplus and retained earnings, whereas borrowed funds include share capital, reserves and surplus and retained earnings, whereas, borrowed funds include debentures, long-term loans and public deposits.

5. What is dividend decision?

   The dividend is that portion of the profit that is distributed to the shareholders. The decision involved here is how much of the profit earned by the company after paying the taxes is to be distributed to the shareholders. It also includes the part of the profit that should be retained in the business. When the current income is re-invested, the retained earnings increase the firm's future earning capacity.

6. What are the roles of financial manager?

   - Anticipating financial needs
   - Acquiring financial resources
   - Allocation of funds
   - Expected events
   - Financial implications
   - Forecasting expected return

7. What is profit maximization?

   Profit maximisation is a process business firms undergo to ensure the best output and price levels are achieved in order to maximise its returns. Influential factors such as sale price, production cost and output levels are adjusted by the firm as a way of realising its profit goals.

8. What is wealth maximization?

   Wealth maximization in financial management is like planting a money tree that grows over time, benefiting individuals and organizations in the long run. For financial managers, this knowledge is a treasure map to unlock lasting profitability and foster the organization's overall success. The companies in the finance sector ensure that everyone who holds a stake in the company, such as its shareholders, sees their wealth grow using wealth maximization.

9. State the importance of financial management.

- Availability of sufficient funds
- Maintaining a balance between income and expenses to ensure financial stability
- Ensuring efficient and high ROI

- Creating and executing business growth and expansion plans
- Safeguarding the organization against market uncertainties through ensuring buffer funds

10. Difference between profit maximization and wealth maximization.

Aspect	Profit Maximization	Wealth Maximization
Primary Objective	Maximizes short-term profits	Maximizes long-term wealth
Focus	Short-term gains and immediate income	Long-term growth and value creation
Time Horizon	Short-term perspective, often quarterly or annually	Long-term perspective, focusing on the future
Impact on Stakeholders	May prioritize shareholders at the expense of other stakeholders	Considers the interests of all stakeholders, including employees and the community
Sustainability	May not necessarily lead to sustainable business practices	Encourages sustainable practices and long-term stability

11. List out the Advantages of Wealth Maximization

- **Clarity of Objective**: Wealth maximization provides a clear and measurable financial goal for businesses and investors, making it easier to focus on wealth creation.
- **Long-Term Focus**: It encourages a long-term perspective, promoting sustainable growth and financial stability rather than short-term gains.
- **Shareholder Satisfaction**: Shareholders often benefit from increased stock prices and dividends when a company prioritizes wealth maximization, leading to greater investor satisfaction.
- **Capital Allocation Efficiency**: Wealth maximization guides effective capital allocation, ensuring that resources are directed toward projects and investments with the highest potential for returns.

12. List out the disadvantages of Wealth Maximization.

- **Narrow Focus**: An exclusive focus on wealth maximization can lead to decisions that prioritize shareholder interests at the expense of other stakeholders, potentially causing ethical concerns.
- **Risk Tolerance:** Pursuing wealth maximization may result in riskier investments or strategies, as higher returns often come with increased risks.

- **Short-Term Sacrifices**: In the pursuit of long-term wealth, businesses might need to make short-term sacrifices, such as reduced immediate profits or increased expenses, which can be challenging.

- **Market Volatility**: Market fluctuations can impact the ability to consistently maximize wealth, as economic conditions are often beyond a company's control.

13. Classify finance.
    - Public Finance
    - Business Finance
14. Relate the finance function with other functions.
    - Purchase Function
    - Productivity Function
    - Distribution Function
    - Accounting Function
    - Personnel Function
    - Research and Development
15. Explain the scope of finance.
    - It concentrates primarily on money management
    - It relates to product pricing, expansion, and acquisition of new concern
    - It is closely inter-related with other areas of business operations
    - It should be remembered that both production and distribution