

Section 1

Ans=1 Efficient financial management requires the existence of some objectives. The main objectives of financial management are:

- a. Profit Maximisation
- b. Wealth Maximisation

1. Profit Maximisation :-

Profit maximisation is a term which denotes the maximum profit to be earned by an organisation in a given time period. The profit-maximisation goal implies that the investment, financing and dividend policy decisions of the enterprise should be oriented to profit maximisation.

Profitability-Maximisation implies that the enterprise should select assets, projects and decisions which are profitable and reject those which are not undertake all those activities which add to its profits and eliminate all others which reduce all its profits.

2.

Wealth Maximisation

Owing to the various drawbacks of the profit maximization objective, Professor Ezra Solomon rejected as inappropriate and unsuitable and suggested the adoption of wealth-maximisation objective which removes all the drawbacks of the profit maximization objective.

The wealth or 'net present worth' is the difference b/w gross present worth and the amount of capital investment required to achieve the benefits. Gross present-worth represents the present value of expected cash benefits.

In simple, wealth maximization means maximizing the present value of a course of action (i.e. $NPV = GPV \text{ of benefits} - \text{investment}$). Any financial action which results in positive NPV, creates and adds to the existing wealth of the organisation and the course of action which has

a negative NPV, reduces the existing wealth of organisation and the course and hence be given up.

All the positive action can be adopted as they add to the existing wealth and help in wealth maximization.

In other words, the greater the amount of the net present value, the greater will be in the interest of shareholders. When the value of the firm increases the market price of equity shares also increases. therefore, the increase in market price of share is considered a sign of increases in the value of firm.

Thus, the maximisation of net present worth means the maximisation of the market price of shares.

So, these were the two major objectives of the financial management.