SECTION – 3

QUESTION-1.

ANSWER:-

finance function:-

There are three ways of defining the finance function. Firstly, the finance function can simply be taken as the task of providing funds needed by an enterprise on favourable terms, keeping in view the objectives of the firm.

This means that the finance function is solely concerned with the acquisition (or procurement) of short- term and long-term funds.

Scope of Finance Function:

No doubt, the scope of finance function is wide because this function affects almost all the aspects of a firm's operations. The finance function includes judgments about whether a company should make more investment in fixed assets or not.

It is largely concerned with the allocation of a firm's capital expenditure over time as also related decisions such as financing investment and dividend distribution. Most of these decisions taken by the finance department affect the size and timing of future cash flow or flow of funds.

Classification of Finance Function:

Finance function can be classified into two broad categories, viz.,

(i) Executive finance function and

(ii) Incidental finance function.

Objectives of Financial Management

The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

To ensure regular and adequate supply of funds to the concern.

To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.

To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.

To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.

To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.

Factors Affecting Capital Structure

Capital refers to the fund or assets. The word structure connects the arrangement of the various parts of a thing. Thus, the arrangement of capital is known as a capital structure. It refers to the total combined investments of a business comprising debentures, long-term loans and the total of the shareholders' funds. Capitalization means different things to different people. It is derived from the word capital. It involves the analysis of three aspects ---amount of capital, form of capital and administration of capital. Capital structure is the stable financing of the film, represented by the long-term debt, preferred stock, and net worth.

1. Nature of business

Manufacturing concerns will require more funds to invest in fixed assets like machine tools and plants. Instead, trading enterprises have more funds as working capital. Manufacturing companies can easily get loans by having mortgaged their fixed assets with financial institutions.

2. Size of business

Small companies rely on the owner's funds financing. They find it hard to get long-term debt.

3. Regularity of income

With regular sales and earnings, a company can undertake the fixed obligation debt with low risk. But a company with uneven earnings may not choose to burden itself with fixed charges.

4. The desire to control the business

When a manager or promoters want to control the business, they would design capital structure in such a manner so that the control or voting power remains in the hands of a controlling group of persons.

5. Asset structure of the company

A company which has invested a major part of funds in lived fixed asset find it easier to acquire business finance through debt because it is easy to mortgage the fixed assets.

6. Credit ratings

A company with high rating credit standings has better capability to adjust sources of funds upwards or downwards in reply to major variations it needs for funds than the one with poor credit standings.

7. Age of company

New concerns carry more risks and have low goodwill in the market. Hence, they find it difficult to increase funds through loans in the starting years.

8. Cost of capital

Some sources of finance are more costly whereas other sources are less costly. Moreover, the sources of funds have their own merits and demerits.

9. Degree of risk

The more debt a film has, the larger the interest payments and the greater the chance of inability to make the payments.

10. Fluctuating needs

For fluctuating needs, the film would probably reject debt and equality securities and prefer a short-term loan from a bank.