Finance

Finance is a term for matters regarding the management, creation, and study of money and investments. [1] Specifically, it deals with the questions of how and why an individual, company or government acquires the money needed - called capital in the company context - and how they spend or invest that money. [2] Finance is then often split per the following major categories: corporate finance, personal finance and public finance.[1]

Objective of finance

Profit maximization : The main objective of financial management is profit maximization. The finance manager tries to earn maximum profits for the company in the short-term and the long-term. He cannot guarantee profits in the long term because of business uncertainties. However, a company can earn maximum profits even in the long-term, if:-

The Finance manager takes proper financial decisions.

He uses the finance of the company properly.

Wealth maximization : Wealth maximization (shareholders' value maximization) is also a main objective of financial management. Wealth maximization means to earn maximum wealth for the shareholders. So, the finance manager tries to give a maximum dividend to the shareholders. He also tries to increase the market value of the shares. The market value of the shares is directly related to the performance of the company. Better the performance, higher is the market value of shares and vice-versa. So, the finance manager must try to maximise shareholder's value.

Proper estimation of total financial requirements : Proper estimation of total financial requirements is a very important objective of financial management.

What is Payback period and Net present value Method (NPV)?

Payback period in capital budgeting refers to the time required to recoup the funds expended in an investment, or to reach the break-even point. For example, a $1000 investment made at the start of year 1 which returned $500 at the end of year 1 and year 2 respectively would have a two-year payback period.

Net present value (NPV) is a method used to determine the current value of all future cash flows generated by a project, including the initial capital investment. It is widely used in capital budgeting to establish which projects are likely to turn the greatest profit.

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