Section - 3

Q.1 Ans

Finance function is a function that involves the acquiring and utilization of funds necessary for efficient operations. It is the source to run any organization, it provides the money, it acquires the money. Finance function has been basically classified into 3 ways.

The Long term Finance, medium term finance and short term finance.

Sources of long term finance includes own capital, share capital, long-term capital loans, internal funds and so on. And medium term finance is sourced from bank loans and financial institution. Whereas the short term finance is acquired from bank over drafts, commercial paper, advances from customers, trade credits etc.

* Objectives of financial management are as follows:

i) Profit maximization is the main word in financial management depending upon how the manager would handle the firms finance capital.

ii) Wealth maximization of firms wealth and shareholders wealth.

iii) Survival of company is a important when financial manager makes any financial decisions.

iv) Maintaining proper cash flow is a short run objective of financial management.

v) Minimization on capital cost in financial management can help operation gain more profits.

★ Factors affecting Capital structure are :-

i) Size of company - small companies may have to rely on the founders money but as they grow they will be eligible for long-term financing.

ii) Nature of Business - If your business is a monopoly you can go for debentures because the sale can give adequate profits to pay the debts easily.

iii) Government policy - This is important to consider. A change in lending policy may increase your cost of borrowing.

iv) Cost of floating - if much bigger than that of floating debt. This may influence the finance manager to take debt financing the cheaper option.