Finance Function

it's a part of financial managment.
financial managment is the activity concerned with the control and planning of financial resources.

In business, the finance function involves the acquiring and utilization of funds necessary for efficient operations.

Objectives of finance functions
- Investment Decisions.
- Financing Decisions
- Dividend Decisions
- Liquidity Decisions

The primary objectives of financial mangement
- Attempting to reduce the cost of finance.
- Ensuring sufficient availability of funds.

- Also, dealing with the planning, organizing and controlling of financial activities like the procurement and utilization of funds.

Factor affecting the Capital Structure.

ADVERTISEMEMTS! Some of the factors affecting the capital structure of a company are as follows:- Capital Structure means the proportion of debt and equity used for financing the operations of business.

Capital Structure = Debt / Equity

- Size of Company ⇒ Small companies may have to rely on the founder's money but as they grow they will be eligible for long-term financing because larger Companies are considered less risk by investors.

- Nature of Business ⇒ If your business is a monopoly you can go for debentures because your sales can give you adequate profit to pay your debts easily or pay dividends.

- <u>The regularity of Earnings</u>: A firm with large and stable incomes may incur more debt in its capital structure, unlike the one that is unstable.

- <u>Condition of the money Market</u>
Capital markets are always changing. You don't want to issues company shares during a bear market, you do it when there is a bull run.

- <u>Government policy</u>: This is important to consider. A change in lending policy may increase your cost of borrowing.

- <u>Cost of Floating</u>: The cost of floating equity is much higher that that of floating debt. This may influence the finance manager to take debt financing the cheaper option.

- **Debt - Equity Ratio** - As stated debt is a liability whose interest has to be paid irrespective of earning.
  Equity, on the other hand, is shareholders money and payment depend on profits being paid.
  High debt in the capital structure is risky and may be a problem in adverse times.

Features
- Profitability
- Solvency
- Flexibility
- Control.

Also -
1) Cash Flow Position
2) Interest Coverage Ratio (ICR)
3) Debt Service Coverage Ratio (DSCR)
4) Return On Investment
5) Floating Costs
6) Tax Rate
7) Cost of Debt
8) Cost of Equity
9) Flexibility
10) Risk Consideration
11) Control