Financial Management

Financial management is an essential action for any organization to manage financial resources. A financial manager conducts some activity like financial planning, organizing, directing and controlling organizational funds. Financial management is what financial manager do to achieve organizational goals and objectives. It is important to know the financial management functions of a financial manager to manage resources. It helps you to take a decision about financial planning and management using business resources. A good manager is a good planner, organizer, director and controller of inflow and outflow of funds. The ultimate objectives of a financial manager are to maximize organizational value.

Financial management definition:

Financial management is the process of planning funds, organizing available funds and controlling financial activities to achieve the goal of an organization. To know more about financial management definition, visit

It includes three important decisions which are investment decisions, financing decision and dividend decision for a specified period of time. Investment decision includes working capital decision and capital budgeting decision. Financing decision involves identifying sources of financing, determining the duration and cost of financing and managing investment return.

Example:

Company X is willing to introduce a new product. For this, the CEO employs a financial manager to perform all financial activities. Now the manager has to identify the sources of funds needed for producing the new product. Then he should determine and evaluate the cost of financing. He will allocate the fund using financial planning. And after gaining profit he will distribute the profit to the designated stakeholders.

Financial management functions:

There are some core functions in the process of financial management which are shown in a diagram below:

Now we can see the functions in details which will make us able to understand the purpose of these in the process of financial management. Discussion about these functions are given below:

Estimate required capital: Financial managers' first duty is to forecast the amount of required capital. There are several areas for using financial planning and implementation such as establishment, expansion, and modernization of business, investment in fixed assets and meet daily working capital requirements.

Payback Period determines the time it takes for a business to recoup its investment. This analysis enables firms to compare acquisition opportunities and decide on an opportunity that returns its investment in the shortest time, if that criteria is important to them. sell business

Net Present Value (NPV) is the value of all future cash flows (negative or positive) over the entire life of an investment discounted to the present. NPV is used across finance and accounting for determining the value of a business, capital project, cost reduction program, investment security, new venture, and anything that involves cash flow. buy business

In addition to factoring all revenues and costs, it also takes into account the timing of each cash flow that can result in a large impact on the present value of an investment. It's better to receive cash inflows sooner and cash outflows later, compared to the opposite. Sell business India.

NPV v/s Payback Period. Sell my company

Net Present Value analysis removes the time element in weighing alternative investments, while the payback method focuses on the time required for the return on an investment to repay the total initial investment. Given this, the payback method doesn't properly assess the time value of money, inflation, financial risks, etc. as opposed to NPV, which accurately measures an investment's profitability. In addition, although the payback method indicates the maximum acceptable period of the investment, it doesn't take into consideration any probabilities that may occur after the payback period, nor does it measure total incomes. It doesn't indicate whether purchases will yield positive profits over time. Buy business in indie
sell business in indie

Thus, NPV provides better decisions than the payback method when making capital investments; relying solely on the payback method might result in poor financial decisions. businesses to buy in india businesses for sale in india
As far as advantages are concerned, the payback period method is simpler and easier to calculate for small, repetitive investment and factors in tax and depreciation rates. NPV, on the other hand, is more accurate and efficient as it uses cash flow, not earnings, and results in investment decisions that add value. On the downside, it assumes a constant discount rate over the life of the investment and is limited in predicting cash flows. Moreover, the cons of Payback include the fact that it doesn't take into account cash flows and profits after the payback period and money value along with financial risks prior to or during investment. sell