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## The Importance, Scope and Elements of Financial Management

**Ashok Sharma**

Assistant Professor (Guest Faculty)

Department of ABST

Government College Bali

Pali Rajasthan India

### ABSTRACT

Financial management provides the foundation for proper fund utilisation and strategic planning to uphold fiscal supervision. Managing finances is crucial since it adds value to an organisation and strengthens the customer relationship. Financial management involves managing cash movement, risk management and managing credit. The Imagine a financial institution (banks or Non-banking financial institutions) operating under the strict supervision of the central bank. Since the Central Banks control the monetary mechanism, they can regulate the general functioning of banks by tweaking repo/reverse repo rate values, etc. Banks essentially earn profits from the difference in interest income earned from extending loans and interest paid by their customers.

Key Words : Concepts, Scope, Importance and Elements

### Concept of Financial Management

Financial management refers to the strategic planning, organising, directing, and controlling of financial undertakings in an organisation or an institute. It also includes applying management principles to the financial assets of an organisation, while also playing an important part in fiscal management.

Financial management is the operational process of a company that wants to acquire and utilise the funds efficiently which is required for company activities. It is primarily focusing on the efficient management of funds in the enterprise. According to the layman, businesses' financial management is known as corporation finance/business finance as practised by businesses. And you should know about the concept of financial management to become a financial expert..The

nature of financial management relates to its connection with disciplines such as economy and accounting, among others. Financial management is an essential component of managing. And the basic concept of financial management is associated with other disciplines and fields of study such as economy, accounting, manufacturing, marketing, human resources, and quantitative techniques.

### **Meaning of Financial Management?**

At its core, financial management is the practice of making a business plan and then ensuring all departments stay on track. Solid financial management enables the CFO or VP of finance to provide data that supports creation of a long-range vision, informs decisions on where to invest, and yields insights on how to fund those investments, liquidity. Financial management is one of the most important responsibilities of owners and business managers. They must consider the potential consequences of their management decisions on profits, cash flow and on the financial condition of the company. The activities of every aspect of a business have an impact on the company's financial performance and must be evaluated and controlled by the business owner.

Financial management is strategic planning, organising, directing, and controlling of financial undertakings in an organisation or an institute. It also includes applying management principles to the financial assets of an organisation, while also playing an important part in fiscal management. The objectives involved in financial management include:

1. Maintaining enough supply of funds for the organisation;
2. Ensuring shareholders get good returns on their investment;
3. Optimum and efficient utilisation of funds;
4. Creating real and safe investment opportunities.

### **Role of the Financial Manager**

The financial management department of any company is handled by a financial manager. This department has numerous functions, such as:

1. Investing the capital. Every organisation or company needs to invest money in order to raise more capital and gain regular returns. This means the financial manager needs to invest funds in safe and profitable ventures.
2. Allocation of profits. Once the organisation has a solid net profit, it is the financial manager's duty to efficiently allocate it. This could involve keeping a part of the net profit for contingency, innovation, or expansion purposes, while another part of the profit can be used to provide dividends to the shareholders.

3. Effective management of money. The financial manager is also responsible for effectively managing the company's money. Money is required for various purposes in the company such as payment of salaries and bills, maintaining stock, meeting liabilities, and the purchase of any materials and/or equipment.

4. Financial control. Not only does the financial manager have to plan, organise, and obtain funds, but he/she also has to control and analyse the company's finances. This can be done using tools such as financial forecasting, ratio analysis, risk management, and profit and cost control.

### **Important of Financial management**

Financial management is one of the most important aspects of a business. To start and run a successful business, you will need excellent knowledge of financial management. In our Master's Degree in General Management, you can also take cross-cutting topics in different variants, depending on your career goals. One of these variants focuses on finance.

### **Calculating the capital required**

The financial manager has to calculate the amount of capital an organisation requires. This depends on the policies of the company with regards to expected expenses and profits. The amount required has to be estimated in such a way that the earnings in the company increase.

### **Formation of capital structure**

Once the amount of capital has been estimated, a capital structure needs to be formed. This involves a debt-equity analysis, both short-term and long-term. The outlook of the structure depends on the amount of capital the company owns, and the amount that needs to be raised via external sources.

### **Scope of Financial Management**

Financial management encompasses four major areas:

#### **Planning**

The financial manager projects how much money the company will need in order to maintain positive cash flow, allocate funds to grow or add new products or services and cope with unexpected events, and shares that information with business colleagues.

Planning may be broken down into categories including capital expenses, T&E and workforce and indirect and operational expenses.

## Budgeting

The financial manager allocates the company's available funds to meet costs, such as mortgages or rents, salaries, raw materials, employee T&E and other obligations. Ideally there will be some left to put aside for emergencies and to fund new business opportunities.

## Managing and assessing risk

Line-of-business executives look to their financial managers to assess and provide compensating controls for a variety of risks, including:

### Market risk

Affects the business' investments as well as, for public companies, reporting and stock performance. May also reflect financial risk particular to the industry, such as a pandemic affecting restaurants or the shift of retail to a direct-to-consumer model.

### Credit risk

The effects of, for example, customers not paying their invoices on time and thus the business not having funds to meet obligations, which may adversely affect creditworthiness and valuation, which dictates ability to borrow at favorable rates.

### Liquidity risk

Finance teams must track current cash flow, estimate future cash needs and be prepared to free up working capital as needed.

### Operational risk

This is a catch-all category, and one new to some finance teams. It may include, for example, the risk of a cyber-attack and whether to purchase cybersecurity insurance, what disaster recovery and business continuity plans are in place and what crisis management practices are triggered if a senior executive is accused of fraud or misconduct.

## Procedures

The financial manager sets procedures regarding how the finance team will process and distribute financial data, like invoices, payments and reports, with security and accuracy. These written procedures also outline who is responsible for making financial decisions at the company — and who signs off on those decisions.

## Elements of Financial Management

Financial Management is made of the following key elements. These are:

## 1. Financial Planning

Financial Planning is a way of calculating the capital required by an organization and adequately allocating resources accordingly. To do this effectively, one needs to have answers to the following questions:

## 2. Financial Control

It is a pivotal activity to ensure the business is working to meet its objectives. It is more about setting proper KIPs rather than reducing costs. It is essential to ensure everyone in the team is aware of both financial and business goals.

## 3. Financial Decision-making

Once you have a proper plan and understanding of all the financial aspects, decision-makers should access and decide on fundings, resource allocations, profit distributions, and many more.

### Functions of Financial Management

The financial management team in any organization is led mainly by the Finance Manager or someone from the Core Leadership team. Here are a few functions which the team generally is responsible for:

Financial Management is one of the most important aspects for individuals and organisations in this rapidly growing world. It is no longer about saving money; it is about managing and growing money. To run a business efficiently and effectively and achieve business goals, one needs to have a good knowledge and understanding of financial accounting and management.

### Business Financial Planning

Your company's financial plan is essentially just the financial section of your overall business plan. It applies real financial data and projections to put the rest of your business plan in context.

And crucially, it is forward-looking. While you use existing accounting figures (if you have them already) and experience to create your plan, it's not simply a copy/paste of your accounting data. Instead, you look at your business goals and define the level of investment you're willing to make to achieve each of these.

New call-to-action

But this doesn't mean that financial plans are just "made up." If anything, this section of your business plan is the most grounded in reality.

The financial section of a business plan is one of the most essential components of the plan, as you will need it if you have any hope of winning over investors or obtaining a bank loan. Even if you don't need financing, you should compile a financial forecast in order to simply be successful in steering your business.”

## Conclusion

This probably won't come as a surprise to most readers, but financial planning is essential to building a successful business. Your business plan dictates how you plan to do business over the next month, quarter, year, or longer - depending on how far out you plan.

It includes an assessment of the business environment, your goals, resources needed to reach these goals, team and resource budgets, and highlights any risks you might face. While you can't guarantee that everything will play out exactly as planned, this exercise prepares you for what's to come.

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