INTRODUCTION TO FINANCE MANAGEMENT

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Significance

Finance is the life blood of business. The time and extent of the availability of finance in any organization indicates the health of a concern. Every organization, may it be a company, firm, college, school, bank or university requires finance for running day to day affairs. As every organization previews stiff competition, it requires finance not only for survival but also for strengthening themselves. Finance is said to be the circulatory system of the economy body, making possible the required cooperation between the innumerable units of activity

Definition of Finance

- According to F.W.Paish, Finance may be defined as the position of money at the time it is wanted.
- In the words of John J. Hampton, the term finance can be defined as the management of the flows of money through an organization, whether it will be a corporation, school, bank or government agency.
- According to Howard and Upton, “finance may be defined as that administrative area or set of administrative functions in an organization which relates with the arrangement of each and credit so that the organization may have the means to carry out the objectives as satisfactorily as possible.
- In the words of Bonneville and Dewey, Financing consists in the raising, providing, managing of all the money, capital or funds of any kind to be used in connection with the business.

Types of Finance

- Business Finance

The term ‘business finance’ is very comprehensive. It implies finances of business activities. The term, ‘business’ can be categorized into three groups: commerce, industry and service. It is a process of raising, providing and managing of all the money to be used in connection with business activities. It encompasses finance of sole proprietary organizations, partnership firms and corporate organizations. No doubt, the aforesaid organizations have different characteristics, features, distinct regulations and rules. And financial problems faced by them vary depending upon the nature of business and scale of operations. However, it should be remembered that the same principles of finance are applicable to large and small organizations, proprietary and non-proprietary

- Direct Finance

The term ‘direct’, as applied to the financial organisation, signifies that savings are affected directly from the saving-surplus units without the intervention of financial institutions such as investment companies, insurance companies, unit trusts, and so on.

- Indirect Finance

The term ‘indirect finance’ refers to the flow of savings from the savers to the entrepreneurs through intermediary financial institutions such as investment companies, unit trusts and insurance companies, and so on. Finance administers economic activities.

The scope of finance is vast and determined by the financial needs of the business enterprise, which have to be identified before any corporate plan is formulated. This eventually means that financial data must be obtained and scrutinized. The main purpose behind such scrutiny is to determine how to maintain financial stability.

- Public Finance

It is the study of principles and practices pertaining to acquisition of funds for meeting the requirements of government bodies and administration of these funds by the government.

- Private Finance

It is concerned with procuring money for private organization and management of the money by individuals, voluntary associations and corporations. It seeks to analyse the principles and practices of managing one’s own daily affairs. The finance of non-profit organization deals with the practices, procedures and problems involved in the financial management of educational chartable and religions and the like organizations.

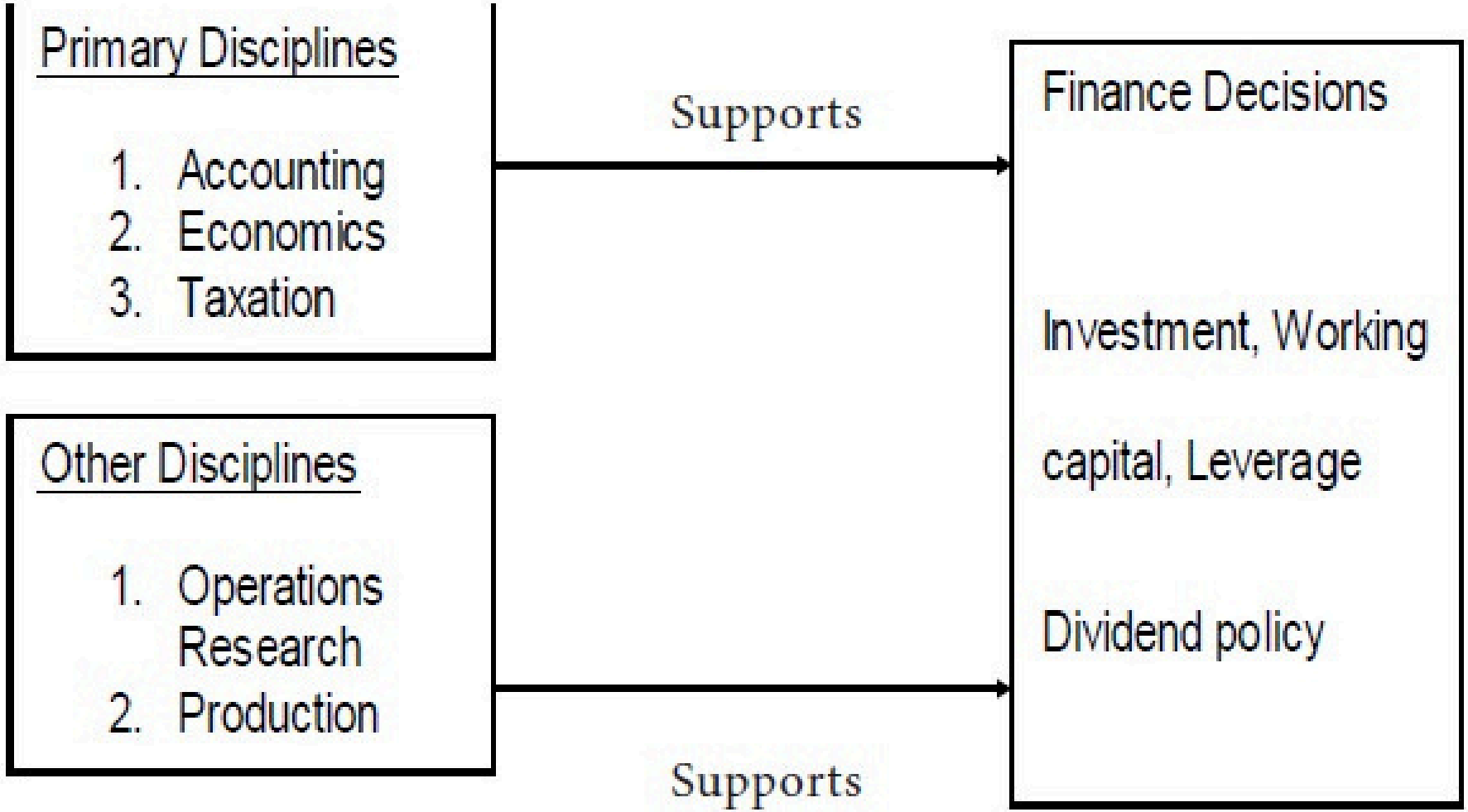
- Corporation Finance

Corporation finance deals with the financial problems of a corporate enterprise. These problems include the financial aspects of the promotion of new enterprises and their administration during their early period ; the accounting problems connected with the distinction between capital and income, the administrative problems arising out of growth and expansion, and, finally, the financial' adjustments which are necessary to bolster up to rehabilitate a corporation which has run into financial difficulties

Finance in Relation to Other Allied Disciplines

The finance function cannot work effectively unless it draws on the-disciplines which are closely associated with it. Management is heavily dependent on accounting for operating facts. Accounting' has been described by Richard M. Lynch and Robert W. Williamson as "the - measurement and communication of financial and economical data. In fact, accounting information relates to the production, sales, expenses, investments, losses and gains of the business. Accounting has three branches namely, financial accounting, cost accounting and management accounting

Relationships between Finance and other Disciplines



Financial Accounting

It is concerned with the preparation of reports which provide information to users outside the firm. The most common reports are the financial statements included in the annual reports of stock-holders and potential investors. The main objective of these-reports is to inform stockholders, creditors and other investors how assets are controlled by a firm. In the light of the financial statements and certain other information, the accountant prepares funds film statement, cash flow statement and budgets

A master plan (Budget) of the organization includes and coordinates the plans of every department in financial terms. According to Guthmann and Dougall, “Problems of finance are intimately connected while problems of purchasing, production and marketing”.

Cost Accounting

It deals primarily with cost data. It is the process of classifying, recording, allocating and reporting the various costs incurred in the operation of an enterprise. It includes a detailed system of control for material, labour and overheads. Budgetary control and standard casting are integral part of cost accounting. The purpose of cost accounting is to provide information to the management for decision making, planning and control. It facilitates cost reduction and cost control. It involves reporting of cost data to the management

Management Accounting

It refers to accounting for the management. It provides necessary information to assist the management in the creation of policy and in the day to day operations. It enables the management to discharge all its functions, namely, planning, organizing, staffing, direction and control efficiently with the help of accounting information

Functions of management accounting include all activities connected with collecting, processing, interpreting and presenting information to the management. According to J. Batty, 'management accounting' is the term used to describe the accounting methods, systems and technique which coupled with special knowledge and ability, assist management in its task of maximizing profits or minimizing losses. Management accounting is related to the establishment of cost centres, preparation of budgets, and preparation of cost control accounts and fixing of responsibility for different functions.

Summary

Finance is the life blood of business. Before discussing the nature and scope of financial management, the meaning of ‘finance’ has to be explained. In fact, the term, finance has to be understood clearly as it has different meaning and interpretation in various contexts. The time and extent of the availability of finance in any organization indicates the health of a concern. Finance may be defined as the position of money at the time it is wanted. Financing consists in the raising, providing, managing of all the money, capital or funds of any kind to be used in connection with the business.

The term ‘business finance’ is very comprehensive. It implies finances of business activities. The term, ‘business’ can be categorized into three groups: commerce, industry and service. It is a process of raising, providing and managing of all the money to be used in connection with business activities. The term ‘corporation finance’ includes, apart from the financial environment, the different strategies of financial planning. It includes problems of public deposits, inter- company loans and investments, organised markets such as the stock exchange, the capital market, the money market and the bill market.

The finance function cannot work effectively unless it draws on the- disciplines which are closely associated with it. Management is heavily dependent on Accounting, Economics, Taxation, Operations research, Production and Marketing.

Keywords

- Finance

It is defined as the position of money at the time it is wanted.

- Business Finance

According to Guthmann & Dougall, Business finance can be broadly defined as the activity concerned with planning, raising, controlling and administering of funds used in the business

- Corporation Finance

The term ‘corporation finance’ includes, apart from the financial environment, the different strategies of financial planning. It includes problems of public deposits, inter-company loans and investments, organised markets such as the stock exchange, the capital market, the money market and the bill market

- Accounting

It relates to the production, sales, expenses, investments, losses and gains of the business.

- Financial Accounting

The most common reports are the financial statements included in the annual reports of stock-holders and potential investors.

- Cost Accounting

It deals primarily with cost data. It is the process of classifying, recording, allocating and reporting the various costs incurred in the operation of an enterprise. It includes a detailed system of control for material, labourand overheads.

- Management Accounting

It refers to accounting for the management. It provides necessary information to assist the management in the creation of policy and in the day to day operations. It enables the management to discharge all its functions, namely, planning, organizing, staffing, direction, and control efficiently with the help of accounting information.

- Management

Process of attainment of predetermined goals by directing activities of a group of persons and employing other resources.

Thank You

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