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BUSINESS FINANCE

INTORDUCTION

In the above case, these decisions require careful financial planning, an understanding of the resultant capital structure and the riskiness and profitability of the enterprise. All these have a bearing on shareholders as well as employees. They require an understanding of business finance, major financial decision making areas, financial risk, the fixed and working capital requirements of the business. Finance, as we all know, is essential for running a business. Success of business depends on how well finance is invested in assets and operations and how timely and cheaply the finances are arranged, from outside or from within the business.

MEANING OF BUSINESS FINANCE

Money required for carrying out business activities is called business finance. Almost all business activities require some finance. Finance is needed to establish a business, to run it, to modernize it, to expand, or diversify it. It is required for buying a whole variety of assets, they may be tangible like machinery, factories, buildings, offices; or intangible such as trademarks, patents technical expertise etc. Also finance is central to running day-to-day operations of business like buying supplies, paying bills, salaries, collecting cash from customers, etc. thus, needed at every stage in the life of a business entity. Availability of adequate finance is, thus, very crucial for the survival and growth of a business.

FINANCIAL MANAGEMENT

All finance comes at some cost. It is quite imperative that it needs to be carefully managed. Financial Management is concerned with optimal procurement as well as usage of finance. For optimal procurement, different available sources of finance are identified and compared in terms of their costs and associated risks. Similarly, the finance so procured needs to be invested in a manner that the returns from the investment exceed the cost at which procurement has taken place. Financial Management aims at reducing the cost of funds procured, keeping the risk under control and achieving effective deployment of such funds. It also aims at ensuring availability of enough funds whenever required as well as avoiding idle finance. Needless to say

that the future of a business depends a great deal on the quality of its Financial Management.
Role: Role of Financial Management cannot be over-emphasised, since it has a direct bearing on the financial health of a business. The financial statements such as Balance Sheet and Profit and Loss Account reflect a firms financial position and its financial health. Almost all items in the financial statements of a business are affected directly or indirectly through some financial management decisions. Some prominent examples of the aspects being affected could be as under:

(i) The size as well as the composition of Fixed Assets of the business: For example, a capital budgeting decision to invest a sum of Rs. 100 crores in fixed assets would raise the size of fixed assets block by this amount.

(ii) The quantum of Current Assets as well as its break-up into cash, inventories and receivables: With an increase in the investment in fixed assets, there is commensurate increase in the working capital requirements. The quantum of currents assets is also influenced by financial management decisions. In addition decisions about credit policy, inventory management affect the amount of debtors and inventory which in turn affect the total current assets as well as their composition.

(iii) The amount of long term and short term financing to be used: Financial management, inter alia, involves decision about the proportion of long and short-term finance. An organisation wanting to remain more liquid would raise relatively more amount on a long term basis and vice-versa. There is a choice between liquidity and profitability. The underlying assumption here is that current liabilities cost less than long term liabilities.

(iv) Break-up of long term financing into debt, equity etc: Of the total long term finance, the proportions to be raised by way of debt and/or equity is also a financial management decision. The amounts of debt, equity share capital, preference share capital are affected by the financing decision, which is a part of financing management.

(v) All items in the Profit and Loss Account e.g., Interest, Expense, Depreciation etc. : Higher amount of debt means higher interest expense in future. Similarly, use of higher equity may entail higher payment of dividends. Similarly, an expansion of business which is a result of capital budgeting decision is likely to affect virtually all items in the profit and loss account of the business.

In other words it can, thus, be stated that the financial statements of a business have been largely determined by financial management decisions taken earlier. Similarly, the future financial statements would depend upon past as well as current financial decisions. Thus, the overall financial health of a business is determined by the quality of its financial management. Good financial management aims at mobilisation of financial resources at a lower cost and deployment of these in most lucrative activities.