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Financial Management

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Key Financial Decisions



Investment Decisions

Investment?

YES

NO

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Financial Decision



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Working capital finance



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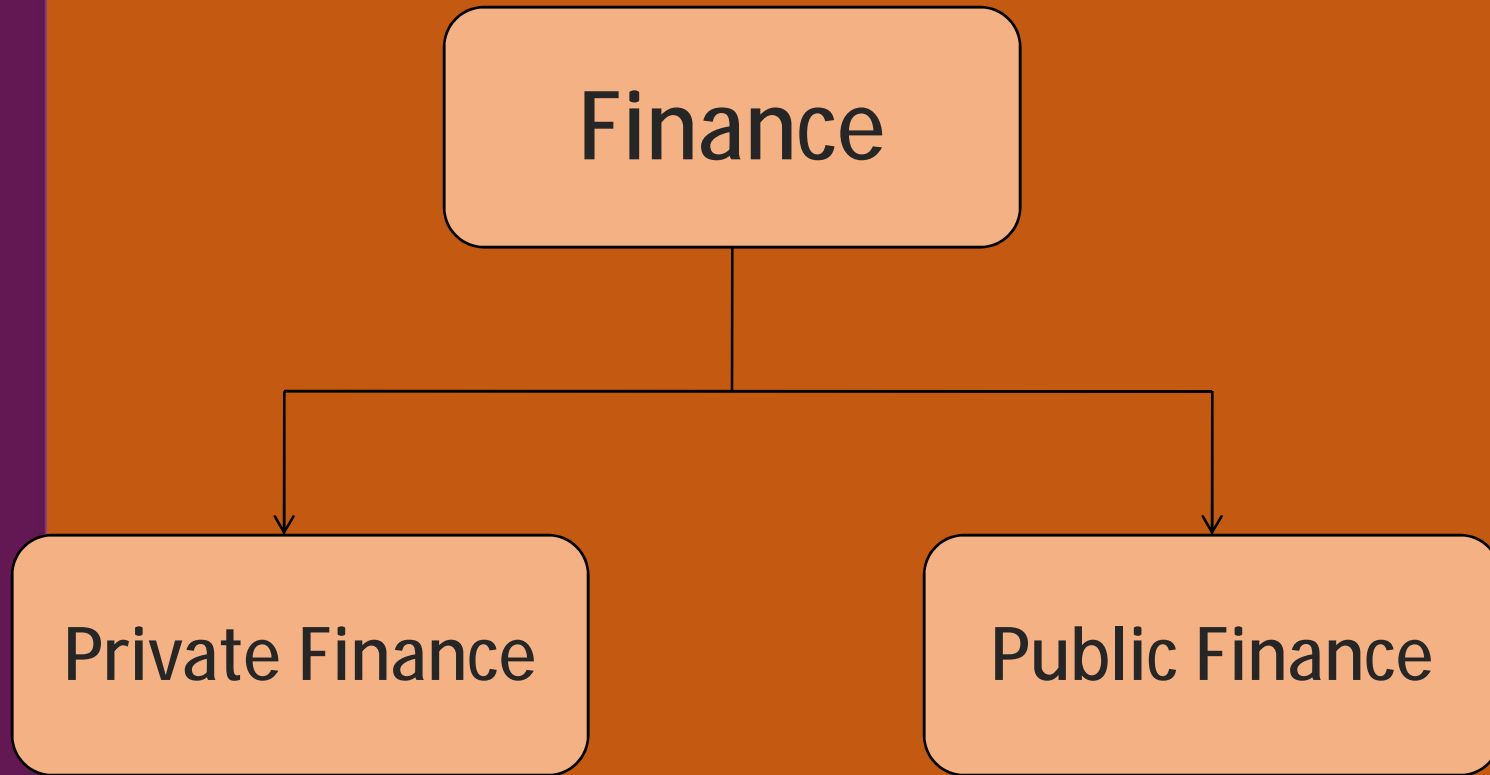
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What is Finance

"Finance is the art and science of managing money"





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FINANCIAL MANAGEMENT



“It is concerned with the efficient use of an important economic resource namely, capital funds”

-solomon

“Financial Management deals with procurement of funds and their effective utilization in the business”

-S. C. Kuchal

“as an application of general managerial principles to the area of financial decision-making”

-Howard & Upton

“is an area of financial decision-making, harmonizing individual motives and enterprise goals”

-Western & Brigham

“is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations”

-Joseph & Massie

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Scope of Financial Management

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Estimating Financial Requirement

Deciding Capital Structure

Selecting Source of Finance



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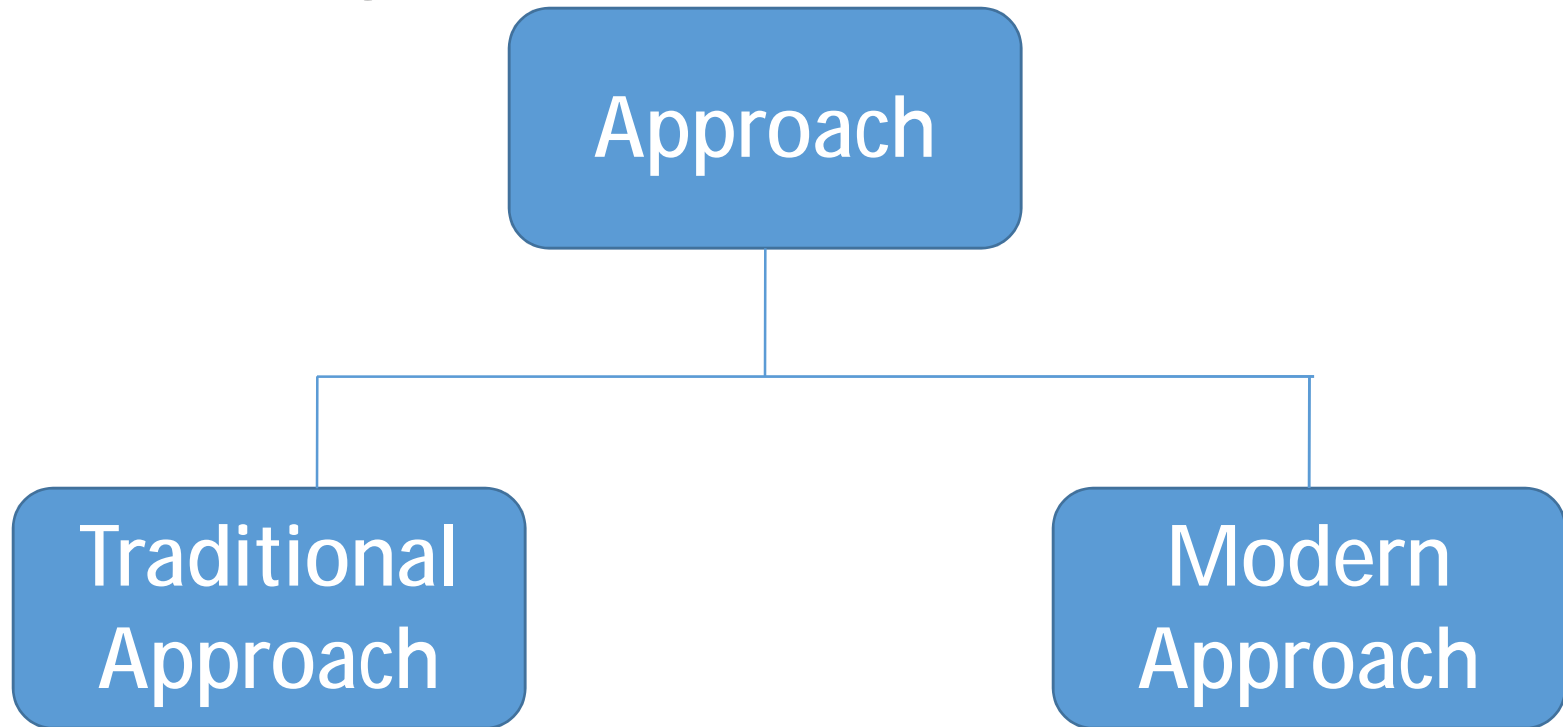
Selecting Pattern of Investment

Proper Cash Management

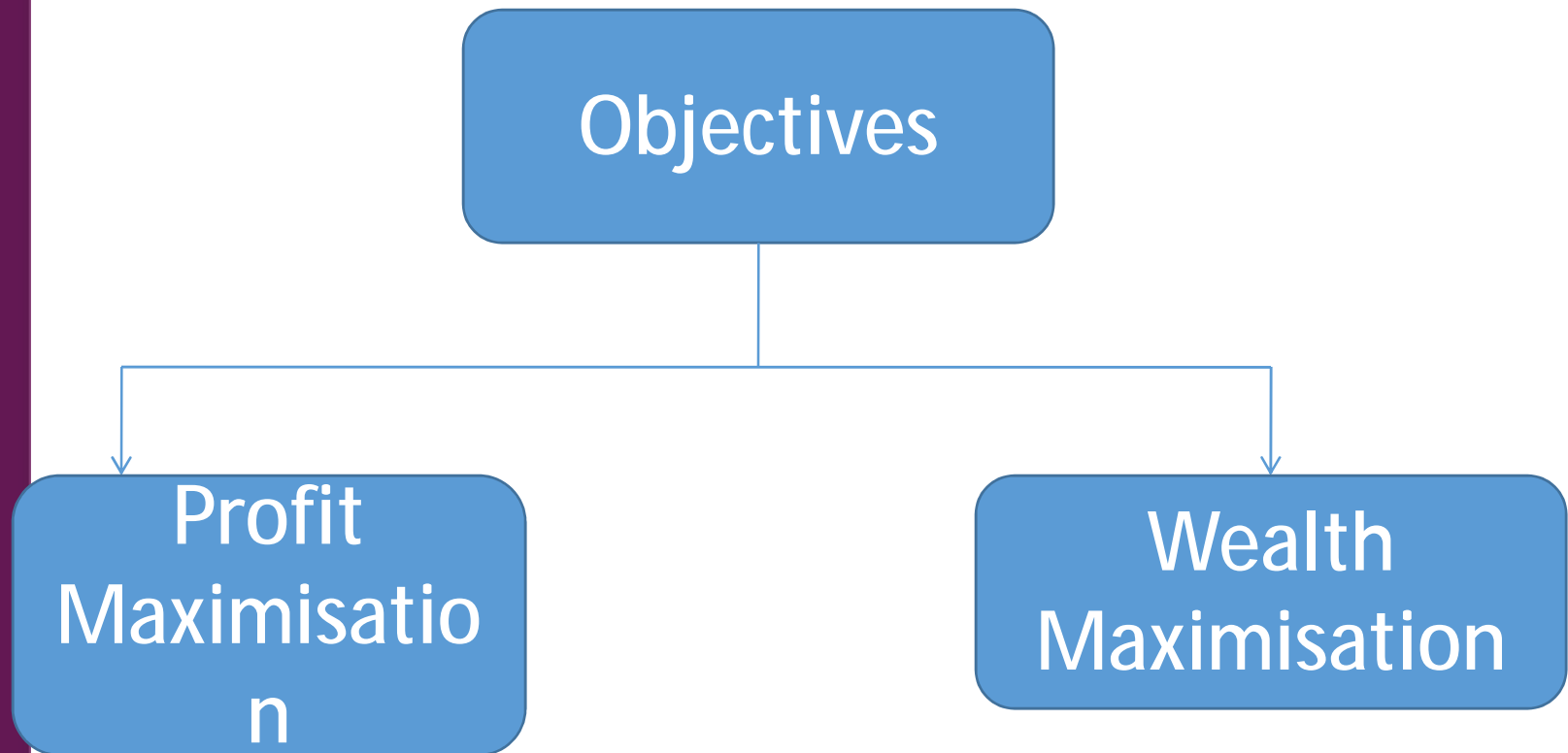
Implementing Financial Control

Proper Use of Surplus

Approaches to Financial Management



Objectives of Financial Management



Profit Maximisation

- When profit earning is the main aim of the business than profit maximization is the obvious objective.
- Profitability is the barometer of measuring efficiency and economic prosperity of a business enterprise, so profit maximization is justified on the grounds of rationality.
- A business is able to survive under the adverse situation only it has past earning to rely upon. Therefore a business should earn more and more when conditions are favorable.
- Profitability is essential for fulfilling social goals also. A firm by pursuing the objective of profit maximization also maximizes socio-economic welfare.

Drawbacks of Profit Maximisation

- The term profit is vague and it cannot be precisely defined.
- Profit maximization ignores the time value of money and does not consider the magnitude and timing of earnings.
- It does not take into consideration the risk of prospective earnings stream. Some projects are more risky than others and hence the earnings stream will also be risky in case of risky projects.

Wealth Maximisation

Stockholders Current Wealth in a Firm=
(No. of Shares owned) X (Current Stock Price
per share)

$$W_0 = NP_0$$

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Principles of Financial Management

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Investment Decision

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Financial Decision



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Dividend Decision



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Liquidity Decision



Sources of Long Term Finance



Shares

Debentures

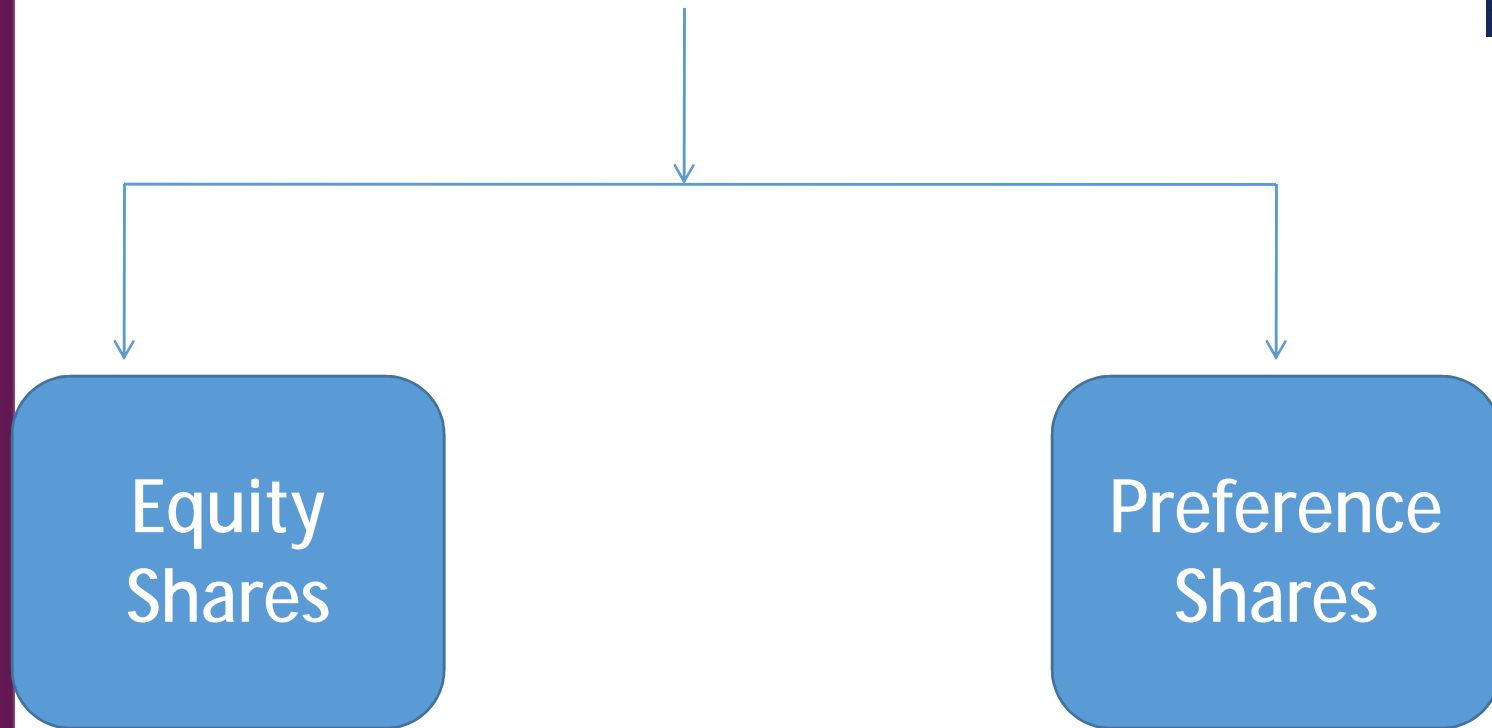
Public
Deposits

Retained
Earnings

Term Loans
from Banks

Loans from
financial
institutions

Shares



Features of Equity Share

Permanent in Nature

Declaration of Dividend

Voting right of shareholder

Transfer of Ownership

Representation of Ownership

Features of Preference Shares

- The rate of dividend in preference shares is fixed.
- Preference shareholders must be paid dividend before paying the dividend to equity shareholders.
- Preference shareholders have preferential right to get amount of capital in case of winding up the company before the payment to the equity shareholders.
- Preference shares are less risky than equity shares because the rate of dividend is prefixed and paid regularly.
- Preference shareholders do not have the voting right.
- The preference dividend should not be deducted from taxable income of the company

Types of Preference Share



Cumulative Preference shares

Non-cumulative Preference shares

Redeemable Preference shares

Irredeemable Preference shares

Participating Preference shares

Non-participating Preference shares

Convertible Preference shares

Non-convertible Preference shares

100 SHARES

100 SHARES

Nº N1096

100 SHARES

DYNAMIC FILMS, INC.

INCORPORATED UNDER THE LAWS OF THE STATE OF NEW YORK
COMMON STOCK

THIS IS TO CERTIFY THAT

HIRSCH & CO.

is the owner of

— ONE HUNDRED —

fully paid and non-assessable shares of the par value of Ten Cents (\$.10) per share of the Common Stock of

DYNAMIC FILMS, INC.

transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this certificate properly endorsed. This certificate and the shares represented hereby are issued and shall be held subject to all of the provisions of the Certificate of Incorporation of the Corporation and all amendments thereof to all of which the holder by the acceptance hereof assents. Stockholders have no preemptive rights to subscribe for securities of the Corporation. This certificate is not valid unless countersigned by the Transfer Agent and Registrar.

WITNESS the seal of the Corporation and the signatures of its duly authorized officers.

Dated AUG 1 - 1960

Paul Lewis
Secretary



Nathan Zucker
President

COUNTERSIGNED BY
REGISTRAR AND TRANSFER COMPANY
(NEW YORK)
TRANSFER AGENT AND REGISTRAR
BY *[Signature]*
AUTHORIZED OFFICER

Debentures: Features

- Debenture holders are the creditors of the company. They are entitled to periodic payment of interest at a fixed rate.
- Debentures are repayable after a fixed period of time, say five years or seven years as per agreed terms.
- Debenture holders do not carry voting rights.
- Ordinarily, debentures are secured. In case the company fails to pay interest on debentures or repay the principal amount, the debenture holders can recover it from the sale of the assets of the company.

Types of Debentures

Convertible and Non-convertible Debentures

Registered and Bearer Debentures

Secured and Unsecured Debentures

Redeemable and Irredeemable Debentures

Distinction Between Shares & Debentures



Shares	Debentures
A share is a part of owned capital	A debenture is an acknowledgment of a debt
Shareholders are paid dividend on shares held by them	Debenture holders are paid interest on debentures
The rate of dividend depends upon the amount of divisible profits and policy of the Board of Directors	A fixed rate of interest is paid on debentures irrespective of profit or loss
Shareholders have voting rights. They have control over the management of the company.	Debenture holders are only creditors of the company. They have no say in the company
Shares are not redeemable (with the exception of redeemable preference share) during the life of the company	Debenture can be redeemed after a certain period.
At the time of liquidation of the company, share capital is payable after meeting all outside liabilities.	Debentures are payable in priority over share capital.

WILLIAM SUGG & COMPANY, LIMITED.

ISSUE of a series of **MORTGAGE DEBENTURES** of £100 each and £50 each respectively, limited to the sum of £15,000, ranking *pari passu*.

Redeemable at par on the 31st day of December, 1897.

Bearing Interest at the rate of **Five per cent.** per annum, payable half-yearly on the **1st January** and the **1st July** in each year, until the respective principal sums shall be paid. Interest accruing from the date of payment to the 30th June will be paid the 1st July next.

N.B.—An early application is invited, as only a small number remain unallotted.

April, 1888.

Public Deposits

- The term 'public deposit' implies any money received by a company through the deposits or loans collected from the public.
- The public includes the general public, employees and shareholders of the company but excludes the money received in the form of shares and debentures.

Retained Earnings



Merits	Demerits
Cheap Source of Capital	Huge Profit
Financial stability	Dissatisfaction among shareholders
Benefits to the shareholders	Mis-management of funds

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