

Introduction to Financial Management

Introduction to Financial Management

Key concepts, objectives, and tools for managing an organization's financial resources.

1. What Is Financial Management?

- **Definition** – The planning, organizing, directing, and controlling of financial activities such as procurement and utilization of funds.
 - **Scope** – Covers all financial decisions: investment, financing, dividend, and working?capital management.
 - **Stakeholders** – Owners, managers, employees, creditors, government, and the broader community.
-

2. Core Objectives

Objective	Description	Typical Metrics
Profit Maximization	Generate the highest possible profit for a given level of risk.	Net profit, ROI
Wealth Maximization	Increase the market value of the firm and shareholders' wealth.	Share price, EVA (Economic Value Added)
Liquidity Management	Ensure the firm can meet short?term obligations.	Current ratio, cash conversion cycle
Financial Stability	Maintain a sound capital structure and manageable debt levels.	Debt?to?equity ratio, interest coverage
Risk Management	Identify, assess, and mitigate financial risks.	Value at Risk (VaR), hedging ratios

Most modern firms prioritize wealth maximization while balancing the other objectives.

3. The Financial Management Process

1. Strategic Planning

Introduction to Financial Management

- Set long-term financial goals aligned with corporate strategy.
- Forecast cash flows, capital requirements, and growth targets.

2. Budgeting & Forecasting

- Prepare operating, capital, and cash budgets.
- Use variance analysis to compare actual results with budgeted figures.

3. Financing Decisions

- Choose the optimal mix of debt, equity, and internal funds.
- Evaluate sources: bank loans, bonds, retained earnings, venture capital.

4. Investment Decisions (Capital Budgeting)

- Assess long-term projects using techniques such as NPV, IRR, Payback Period, and Profitability Index.
- Prioritize projects that add value to the firm.

5. Working Capital Management

- Manage current assets (cash, receivables, inventory) and current liabilities (payables).
- Aim to minimize the cash conversion cycle while maintaining service levels.

6. Performance Measurement & Control

- Monitor financial ratios, economic profit, and key performance indicators (KPIs).
- Implement corrective actions when deviations arise.

4. Key Financial Statements (Tools for Decision-Making)

Statement	Primary Purpose	Main Elements
Balance Sheet	Snapshot of financial position at a point in time.	Assets, Liabilities, Equity
Income Statement	Shows profitability over a period.	Revenues, Expenses, Net Income
Cash Flow Statement	Tracks cash inflows and outflows.	Operating, Investing, Financing cash flows

Introduction to Financial Management

Statement	Primary Purpose	Main Elements
Statement of Changes in Equity	Details movements in owners' equity.	Issuance/repurchase of shares, dividends, retained earnings

Financial managers use these statements to evaluate liquidity, solvency, profitability, and efficiency.

5. Fundamental Concepts & Ratios

Concept	Formula	Interpretation
Liquidity Ratios	Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$	Ability to cover short-term obligations.
Solvency Ratios	Debt-to-Equity = $\frac{\text{Total Debt}}{\text{Total Equity}}$	Degree of financial leverage.
Profitability Ratios	Return on Assets (ROA)	