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A review of Financial management and its Evolution

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Abstract

As a kind of management, financial management entails the oversight of monetary assets. It was in the 20th century that the study of financial management emerged as its own academic specialisation. Its primary use-case was in economics until quite recently. There has been an expansion and contraction of its scope as a school subject throughout time. At the outset, capital formation was the primary focus of the finance department. To the contrary, in contemporary financial management, accumulating funds is just half the task; the other half is to put those funds to good use. Nowadays, CFOs and their teams investigate every aspect of their companies' cash flow.

Key words: Financial, Management, Business, Organization etc

Introduction

Management of a company's finances falls under the broad umbrella of financial management. Among the many responsibilities of a CFO is securing money, overseeing day-to-day cash operations, and planning the optimal financial structure for the organisation. Part of this is maintaining order over the company's financial resources and protecting them against waste. This also determines the strategies for future expansion, diversification, collaboration, and mergers and acquisitions. Financial management is the process of establishing and maintaining effective systems for planning, organising, and controlling a company's financial resources and activities.

Finance refers to the preparation, acquisition, and control of a company's financial resources. It emphasises how to get and spend money wisely. Financial management entails overseeing the operation of the financial system. Planning, organisation, direction, and control of a company's financial activities are all part of financial management. A wide variety of tasks and duties are included in the administration of a company's finances. Among the many responsibilities of a CFO is securing money, overseeing day-to-day cash operations, and planning the optimal financial structure for the organisation. A significant component of this is ensuring the sustainability of the company's finances. The company's growth, diversification, joint venture, and merger and acquisition strategy are all influenced by the financial outcomes.

Definition

From a broad perspective, finance refers to the study and practise of managing assets such as money and other liquid assets.

From the perspective of financial experts, it is a straightforward job to provide entities like corporations, enterprises, people, and others with the cash (money) they demand on the conditions most advantageous to achieving their economic goals.

Scope/Elements

Fixed asset investments are one kind of investment that investors may make (called as capital budgeting). Working capital choices often include investments in current assets, such as stocks and bonds.

- **Financial decisions -** Depending on the sort of source, duration of funding, cost of financing, and return on investment you choose, you may be able to get money from several sources..
- **Dividend decision -** When it comes to distributing net profits, the finance manager needs to make a judgement. As a rule of thumb, net earnings are separated into two parts: For shareholders, the amount of dividend and the pace at which it is paid is critical.
- **Retained profits-** Depending on the company's development and diversification objectives, the amount of retained earnings will need to be determined.

Objectives of Financial Management

As a general rule, financial management involves the acquisition, allocation, and control of a company's financial resources. the goals may be-

- To guarantee that the company receives a steady stream of money.
- As a result of the company's earning potential, market price, and expectations of its shareholders, it is necessary to guarantee that shareholders get acceptable returns.
- To guarantee the best possible use of money. As soon as the money is obtained, it should be put to the best use possible while keeping expenses to a minimum.
- Funds should be invested in safe projects in order to assure a reasonable rate of return.
- In order to design a healthy capital structure, it is necessary to have a well-balanced mix of debt and equity capital.

Functions of Financial Management

- **Estimation of capital requirements**: Finance managers are responsible for determining the company's capital needs. This is dependent on a company's current and projected expenses, earnings, and programmes and policies. In order to maximise the company's earning potential, estimates must be created appropriately.
- **Determination of capital composition**: The capital structure must be determined when the estimate is complete. Short-term and long-term debt equity evaluations are part of this process. This will be determined by the amount of equity capital a firm has on hand, as well as the amount of outside funding required.
- **Choice of sources of funds:** If a corporation needs more money, it may get it from a variety of sources, including
    - "The issuance of stock and debt obligations
    - Bank and financial institution loans to be taken
    - Deposits from the general public, in the form of bonds, will be accepted.
    - This decision will be made based on the relative strengths and drawbacks of each source and time period."
- **Investment of funds:** The finance manager must select where to invest money to ensure that the investment is secure and that regular returns may be expected.
- **Disposal of surplus:** The finance manager is responsible for determining the company's net profitability. There are two methods to go about this:
- **Dividend declaration -** Dividend rates and other perks, such as bonuses, are part of this analysis.
- **Retained profits -** Depending on the company's future intentions for growth, innovation, and diversification, a volume must be determined upon.
- **Management of cash:** The finance manager is responsible for deciding how to handle the company's cash. Paying workers and salaries, paying energy and water utility bills, repaying creditors, maintaining sufficient stock, purchasing raw materials, etc. all need a steady supply of cash.
- **Financial controls:** The financial manager's job include more than just budgeting, obtaining, and allocating resources; it also includes maintaining tight reins on those resources. A variety of strategies, including ratio analysis, financial forecasting, cost and profit management, and more, may be used to achieve this goal

Evolution of Financial Management

Its evolution may be divided broadly in three phases:

1. Traditional,

2. Transitional and

3. Modern phase.

"As Ezra Solomon puts it, corporate finance has gone from a descriptive study to one that includes rigorous analysis and normative theory, from a field that was concerned primarily with procurement of funds to one that includes management of assets, allocation of capital, and valuation of firm in overall market, and from a field that focused on external analysis of the firm to one that emphasises decision making within the firm."

1. The Traditional Phase (Till Early 1940's):

Until the early 1940s, the Traditional era spanned nearly four decades. Events of episodic character, such as the acquisition of money, involvement with large lenders like banks, issuing securities and debt servicing, growth, merger and compliance with legal elements were the primary emphasis of financial management in this time. For this study, it was mostly descriptive.

Investors, lenders, and other outsiders dominated discussions on financial management.

Finance was not treated as a distinct discipline during this period since it was considered an integral aspect of economics. Owners were more concerned with the day-to-day operations of their businesses.

- Expansion and diversification operations were funded by the Finance department. Managerial activities did not include finance.
- The role of finance was regarded primarily from the perspective of the lenders, both people and institutions, who provided the monies.
- Resources and long-term finances were the only issues that mattered to the organisation.

- The way in which various facets of finance were discussed was more descriptive than analytical.
- When it came to financing, the focus was mostly on issuing securities such as equities and debt instruments.

2. The Transitional Phase (1940 – Early 1950's):

After World War II, the period known as the "Transitional phase" lasted from the early 1940s to early 1950. In this period, financial management was almost identical to that in the conventional era. Financial planning and management have become more important as the company's demands have changed over time. Analytical frameworks for examining financial concerns began to emerge.

3. The Modern Phase (Since Mid-1950's):

Increasing rivalry, expansion potential, globalisation, economic theory advances, and the development of quantitative techniques of analysis marked the beginning of the Modern period in financial management in the 1950s. A more analytical and empirical approach to decision making was developed as a result. Financial management has become more dependent on an insider's perspective. An important part of today's financial management framework is a holistic strategy that encompasses all aspects of the business. Acquisition and allocation of money are covered by the finance function. Progress in financial management has been marked by three major developments: Harry Markowitz's 1952 Theory of Portfolio Management, the Modigliani-Miller Theory of Leverage and Firm Value in 1958, and Black and Scholes' Option Valuation Model in 1973'. Financial derivatives and risk management, the efficient market hypothesis, option pricing, the theory of the agency, working capital management, capital budgeting, and capital structure, to mention a few, have all experienced significant advancements in the time since that time. The ongoing efforts of academics, researchers, practitioners, and regulators in these and other areas will undoubtedly lead to substantial improvements that will broaden the scope of financial management.

Conclusion

Planning for the future of an individual or a corporate operation to guarantee a good cash flow is part of financial management. The management and upkeep of financial assets is part of its scope. Apart from them, risk management is part of the scope of financial management. Financial management's major focus is on the evaluation of the financial situation rather than on the methods of financial measurement. According to financial managers, an organization's performance may be evaluated using the available data. Both management accounting and corporate finance have influenced managerial finance, which is an integrated approach. The science of money management is a term used by certain financial management specialists. Financing business activity is the major context in which this phrase is used. Human beings, on the other hand, must take care of their money at all levels of life.

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