Meaning of Finance

"*Finance*" came from Latin word '*Finis*' which means "*dealing with money*".The field of finance is broad and dynamic.

At the personal level, finance is concerned with individuals' decisions about how much of their earnings they spend, how much they save, and how they invest their savings.

In a business context, finance involves the same types of decisions: how firms raise money from investors, how firms invest money in an attempt to earn a profit, and how they decide whether to reinvest profits in the business or distribute them back to investors.

So, finance may be defined as the art and science of managing money. It includes financial service and financial instruments. Finance also is referred as the provision of money at the time when it is needed. Finance function is the procurement of funds and their effective utilization in business concerns.

Therefore, the concept of finance includes capital, funds, money, and amount. But each word is having unique meaning. Studying and understanding the concept of finance become an important part of the business concern.

Definition of Finance

According to Khan and Jain, "Finance is the art and science of managing money**"**.

According to Oxford dictionary, the word 'finance' means 'management of money'.

According to George & Terry "Finance consists of providing and utilizing the money, capital rights, credit and any kind of funds which are employed in the operation of an enterprise."

According to Lawrence J. Gitman "Finance is concerned with the process, institutions, markets and instruments involved in the transfer of money among and between individuals, businesses and governments".

Finance is the set of activities dealing with the management of funds. More specifically, it is the decision of collection and use of funds. It is a branch of economics that studies the management of money and other assets.

Definition of Business Finance

The term business finance refers to the collection of money to produce new goods or services, distribution and marketing activities. It is the act or process of accumulation and utilization of fund in order to accomplish a firm's ultimate goal of maximization of owner's wealth.

According to the Wheeler, "Business finance is that business activity which concerns with the acquisition and conversation of capital funds in meeting financial needs and overall objectives of a business enterprise**"**.

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

In the words of Parhter and Wert, "Business finance deals primarily with raising, administering and disbursing funds by privately owned business units operating in nonfinancial fields of industry**"**.

According to above discussion we can say that business finance is the combination of the activities of measuring the amount of money, potential sources of money, justification of the terms and conditions, total finance, storage and process.

Definition of Financial Management

Financial managementis the concerned with the acquisition, financing and management of assets with some overall goal in mind. It is the process of collecting fund from the sources proper utilization, investment in the right place and also playing the role of paying dividends decision.

The term financial management has been defined by **Solomon,** "It is concerned with the efficient use of an important economic resource namely, capital funds".

The most popular and acceptable definition of financial management as given by **S.C. Kuchal** is that "Financial Management deals with procurement of funds and their effective utilization in the business".

Howard and Upton: Financial management "as an application of general managerial principles to the area of financial decision-making.

Weston and Brigham: Financial management "is an area of financial decision-making, harmonizing individual motives and enterprise goals".

Joshep and Massie: Financial management "is the operational activity of a business that is responsible for obtaining and effectively utilizing the funds necessary for efficient operations.

Hughes &Koopers: "Financial management consists of all those activities that are concern with obtaining money and using it effectively."

Thus, Financial Management is mainly concerned with the effective funds management in the business. In simple words, Financial Management as practiced by business firms can be called as Corporation Finance or Business Finance.

Definition of Financial Manager

Financial manager is a person who is responsible for the supervision and handling of the financial affairs of an organization. Also, he or she is responsible for the financial health of an organization. They produce financial reports, direct investment activities, and develop strategies and plans for the long-term financial goals of their organization. Financial managers work in many places, including banks and insurance companies.

According to Canadian Human Resources Division, "Financial manager are those who plan, organize, direct, control and evaluate the operation of financial and accounting departments."

According to Myers, "Financial manager refers to anyone who is responsible for a significant investment or financing decision."

According to Block and Hirt, "Financial manager is the person who has the responsibility to allocate funds to current and fixed assets to obtain the best mix of financing alternatives and to develop an appropriate dividend policy within the context of the firm's objectives."

Function/ Scope/Decisions of Business Finance

It is the responsibility of financial management to allocate funds to current and fixed assets to obtain the best mix of financing alternatives and develop an appropriate dividend policy within the contest of the firm's objectives. The functions are performed on a day-to-day basis as well as through infrequent use of the capital markets to acquire new funds. Scope of financial management may broadly be classified into two groups-

1. Managerial functions
2. Routine functions.

1. Managerial functions: There are the tree major decisions, which are very much important in case of business finance.

a) Investment decision

b) Financing decision

c) Dividend Decision

a) Investment decision – where to invest fund and at what amount? - The most important decision that a business manager has to take in the decision of investment. In order to estimate and arrange for cash requirement of any enterprise, it is very necessary to decide how much cash will be invested in fixed assets and how much in short term or current assets (which are normally convertible into cash within a year). Investment in assets can be categorized into two ways:

i. Working capital management (Short term investment).
ii. Capital budgeting (Long term investment).

Working capital management: If a firm's current liabilities (obligations that must be paid within a year) are subtracted from its current assets then the result will be the value of working capital. Working capital represents the amount of capital available for the day-to-day running of the firm. Sufficient working capital is obviously important to the effective management of a firm's operations.In managing current assets, the financial manager needs to concentrate on three assets: cash, accounts receivable and inventory. The primary concern with cash is that it should never be left idle; it should always be working. Funds that are not immediately needed should be invested to earn interest.

Capital budgeting: capital budgeting is the process of evaluating long term investment project to decide whether a particular project should be accepted or not and also to select a particular project/ projects out of many investment project. The capital budgets are generally prepared separately from the operating budgets.

If it holds more of capital as working capital then it will lose profit from investment and same as if it holds less cash then it will fall in liquidity problem. Thus, firm has to make a better combination of profitability and liquidity.

b) Financing decision – where to raise funds and at what amount? - Financing decision is the second important function to be performed by the financial manager. Broadly, he or she must decide when, where and how to acquire funds to meet the firm's investment needs. The central issue before him or her is to determine the proportion of equity and debt. In financing if he uses more debt than earning per share will rise but risk will be higher. On the other hand, if he or she uses more equity then risk will be low but at the same time earning per share will also be low. So, there should be an optimum mix for better performance. The mix of debt and equity is known as the firm's capital structure. The structure in which expenses are less and share price is high is defined as optimum capital structure.

c) Dividend Decision: Dividend policy must be viewed as an integral part of the firm's financing decision. Dividend decision is the decision that is how much of the net profits should be paid out to the common shareholders. The net income after paying preference dividends belongs to common shareholders. The financial manager has three alternatives regarding dividend decision:

- ✓ Pay all earnings as dividend
- ✓ Retain all earnings for reinvestment
- ✓ Pay certain percentage of earning and retain the rest for reinvestment.

The financial manager must choose among the above alternatives. The choice should be optimum in the sense that it should maximize the shareholders wealth. While taking dividend decisions, the financial manager should consider the preference of shareholders as well as the investment opportunities available to the firm.

2. Routine functions: a company needs to perform some regular activities to complete its managerial activities properly. These are called incidental or routine functions. Routine function refers to the daily work of an organization, such as collection of fund and maintenance of fund, opening insurance policy, collection of information regarding external financing, bookkeeping and report preparing.