

Running head: FINANCIAL MANAGMMENT

Financial management

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Introduction:

Financial management simply refers to the management of finance and funds of an organization. There are a number of different activities which can be included within the scope of financial management. Such activities are directed toward financial health of the company. The financial management is considered as one of the most essential tasks of the management of the organization. The scope of financial management is quite wide which includes a number of different fields like undertaking of different investment and financial decisions, analysis of present income and expenditures, future planning, record keeping, budgeting and so on. In this context, the paper aims to shed light over the significance of the financial management for a business organization (Brigham and Ehrhardt 2010).

Significance of financial management in business

The Financial management conceives a vital significance for business organization in maintaining sustainability and achieving long term success. The financial management deals with the existing financial condition of the organization. Different tools and measures like ratio analysis, capital budgeting and so on, related with financial management enable the management to evaluate the existing financial health of the company more accurately and effectively. The proper knowledge of existing condition allows the managers to formulate an effective strategy for the organization.

Along with existing condition, the financial management also allows the management to forecast the future situation of the business. Different measures and theories of financial management help the management to anticipate future demands, supply, sales, revenues, and

profits. On the basis of this forecasting an organization can undertake long term decisions and strategies (Moyer, McGuigan and Kretlow 2008).

In addition to this, financial management also enables the management to appraise its investment decisions. In a condition when the management requires making a huge amount of investment and there are a number of different alternatives available to the company, the company needs to evaluate all the alternatives and carry out the most feasible investment decision. In this direction, different measures of financial management, like Pay back method, NPV, IRR, ARR, and so on can play a vital role. With the help of such a decision, an organization can explore the future potential of different investment alternatives. This helps management to undertake an efficient investment decision (Reid 2004).

In this context, the study of financial management allows the manager to keep the adequate and optimum position of funds within the organization. The management can prevent the mismanagement of money in the organization. Financial management also encompasses the knowledge regarding the adequate capital structure for organization. There are a number of different ways like bonds, share capital, venture capital, long term and short term loans and so on, which can be use by the management for arranging capital for the purpose of commencing the business. Financial management can allow the management to reveal all the pros and cons of each of the methods for generating funds. With the help of this measure, management can know the optimum combination of such measures which can help them to arrange funds at minimum cost (Reid 2004).

These are some of the prime areas in which a company can avail some intensive benefits of different tools and techniques of financial management.

Conclusion:

The present paper has shed lights over the importance of financial management of different business organization. On the basis of the findings of the whole paper, it can be concluded that financial management has been emerged as one of the most crucial and vital functions undertaken by the management of different business organization. It allows the organization to have an intensive knowledge regarding their funds and financial health. Owing to such importance, it can be interpreted that a manager must have the knowledge of the basics of financial management.

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