

Excellence Program SYJC
Synopsis.

Sub. - Secretarial Practice

Ch. 1 - Business Finance. HSC Weightage:-
with option - 12

1.2 Financial Management

Definition - According to Ezra Solomon, "Financial Management is concerned with effective use of an important economic resource, namely capital funds."

Basic aspects - (a) Raising of funds

(b) Effective utilization of funds.

Functions of Financial Management

A) Routine Functions :-

- 1) Record keeping
- 2) Preparation of various financial statements
- 3) Cash planning
- 4) Credit management
- 5) Providing information to Board of Directors regarding current financial position.

B) Executive Functions :- Text Book pg. no. 3

1. Forecasting financial requirements -
2. Deciding sources of funds
3. Investment decisions - decision making about fixed assets investment is known as 'capital Budgeting'. & Investment Decision relating to current asset is known as 'Working Capital Management'.
4. Dividend policy -
5. Checking and analysis of financial performance
6. Advising Board of Directors.

* Objectives of Financial Management pg.no4

A Profit Maximisation

B. Wealth Maximisation - It is also known as Value Maximisation.

1.3 Financial Planning -

Definition - According J.H. Boneville, "The financial plan of a corporation has two fold aspects, it refers not only to capital structure of the corporation but also to the financial policies which corporation has adopted or intends to adopt."

Significance of financial planning - pg.no.526

1 Elimination of waste -

2 Co-ordination

3 Dynamism

4 Communication

5 Decision Making

6 Integration

7 Futuristic

1.4 Capital Structure -

Capital - Investment of funds in business

Structure - Arrangement of different

components in proper proportion

Capital Structure means, to decide upon the ratio of different securities in total Capital. It is nothing but 'Composition of Capital'.

Definition -

According to Weston and Bringham, "Capital structure is the permanent financing of firm represented by long term debt, preferred stock and net worth."

Components / Parts of Capital Structure

Equity Share Capital	Preference Share Capital	Retained earnings	Borrowed Capital ↓
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(a) Debentures

(b) Term Loan

Factors influencing capital structure

A. Internal Factors. pg. no. 9 & 10

1. Requirement of capital
2. Size and nature of business
3. Growth of business firm
4. Adequate and stable earnings
5. Cash position
6. Period of finance
7. Future plan and development
8. Trading on Equity - Use of borrowed capital for financing a firm is known as 'Trading on Equity'. It is double edged sword.
9. Capital gearing - It is a ratio between: debt capital (Fixed Interest) and equity capital (Variable dividend). If the debt capital is high than equity, it is High Gearing. If the debt capital is low than equity, It is 'Low Gearing'.
10. Attitude of Management.

B External Factors pg. no. 11.

- 1 Market conditions
- 2 Attitude of investors
- 3 Cost of capital - It is the minimum return expected by its investors.
- 4 Government rules and regulations - The SEBI has prescribed debt:equity ratio norm of 2:1. A higher debt-equity ratio of 3:1 has been permitted for large capital intensive project.
- 5 Attitude of financial institutions -
- 6 Rate of interest
- 7 Taxation
- 8 Competition

1.5.A. Fixed Capital

According to Karl Marx, "Fixed capital also circulates, except that the circulation time is much longer."

Factors affecting requirement of fixed capital. pg. no. 13

- 1 Nature of business
- 2 Size of business
- 3 Growth and expansion
- 4 Stage of development of business
- 5 Business cycle.

1.5.3 Working Capital

According to J.S. Mill, "The sum of current assets is working capital of a business."

Factors affecting the requirement of working capital pg. no 14 & 15

- 1 Nature of business
- 2 Size of business
- 3 Volume of sale
- 4 Production cycle
- 5 Business cycle
- 6 Terms of purchase and sales
- 7 Credit control
- 8 Growth and expansion activities
- 9 Management ability
- 10 External factors
- 11 Requirement of cash
- 12 Seasonal fluctuations

1.6 Distinguish Between Fixed Capital & Working Capital Textbook pgno.16