

## A Comparison of Financial Management Types and Purposes

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### Abstract

One of the most critical considerations when starting any business is securing funding. A substantial cash reserve and well-managed finances are necessary not only while a firm is operating but even when it has closed its doors for good. This is why sound fiscal management and control are essential throughout a company's existence. Management of a company's money includes tasks including arranging, planning, directing, and controlling such tasks. Among other things, these actions include the purchase and usage of cash. Managing a business's money is a crucial but often neglected responsibility. In order to accomplish their goals and objectives, businesses engage in financial management, which include strategically planning, organising, regulating, and monitoring their financial resources. Among a company's various financial procedures, it is a great way to keep track of money coming in, going out, accounting, payments, and risk assessment. A area of management focused with an organization's financial resources is referred to here as financial management. In order to guarantee the supply of high-quality petrol and constant service, it is crucial for a firm to exercise appropriate financial management.

**Key words:** financial, enterprise, partnership, Management etc.

### Introduction

A company's financial resources may be managed more efficiently with the help of management concepts. To effectively manage a company's finances, one need only plan, organise, direct, and oversee financial activities. Financial management is keeping an eye on a company's income, expenses, and assets to make sure it stays afloat and makes as much money as possible. Maintaining order in a business's financial accounts is a crucial duty. A corporation's finances—sometimes called the "backbone" of the organization—are essential to every single function within the company. The first and foremost concern of any responsible financial manager should be the prudent acquisition and expenditure of funds. The best way for a business to get funds is for its financial manager to figure out what combination of debt and equity would work best for the company. This is called the optimal capital structure. One of the most important parts of good financial management is making sure the firm never runs out of money and gets the most out of its assets.



**A Financial Manager's Realm**

- **Investment choice—**

The investment decisions of the organisation are constantly monitored by the financial management team. Before deciding to invest in a specific venture, there are a lot of factors that should be carefully considered. The responsibility for allocating a company's resources in a way that maximises profit lies with the company's management.

- **Choice about working capital -**

Also, choosing the right amounts of working capital is essential for sound financial management. Keep in mind that these conclusions are based on investments in things that are occurring right now, whether they are liabilities or assets, when you come to them. Decisions about working capital and short-term borrowing are related. Liquidity, inventories, accounts receivable, and short-term securities are all instances of current assets. Among the many types of obligations that must be settled are bank overdrafts and other outstanding bills. Current assets can include things like cash on hand, inventories, and accounts receivable.

- **The choice of financing -**

Determining whether the necessary funds will be produced from long-term or short-term sources is an essential part of securing financing. In order to maximise the company's market value, it is the responsibility of the financial management to optimise the capital structure as much as feasible. For maximum shareholder benefit, they should maintain a healthy equity-to-debt ratio.

- **Decision on dividends—**

The firm's financial management must authorise any decision on the distribution of dividends. At the heart of these problems is the age-old dilemma of whether a company should pay out dividends or keep the money for itself. The finance manager is responsible for determining the appropriate dividend distribution ratio given the available earnings. He should plan for the company's future success by considering how it may expand, and he should take advantage of chances that come his way without sacrificing profitability.

- **Maintains access to funds**

An additional critical component in a company's liquidity is competent financial management. The onus for guaranteeing a steady flow of capital for the business is on the financial management. By closely monitoring all monetary transactions, he guarantees that there is always a enough amount of capital for the firm. Ensuring an organization's liquidity is at its optimal level is a fundamental consideration when it comes to financial management.

- **Management of profits -**

The goal of sound financial management should be to maximise a company's profit. It keeps a close eye on its expenditures and comes up with situationally appropriate pricing strategies in an attempt to reduce them across all of its operations. The financial manager will weigh the pros and disadvantages of each option thoroughly to find the one that gives the most bang for the buck when it comes to access to capital.



**Determine the Capital Requirement:** The major duty of financial management is to estimate the total amount of money that will be required by the organisation to accomplish its objectives and satisfy its purpose. Factors such as the firm's size, expected profits, corporate policies and programs, and so on determine the amount of capital that is required.

**Lay Out the Financial Framework:**

After estimating the required capital, the next step is to decide on the structure. This setup uses equities investments with varying time horizons, from short to long. On top of that, it will specify how much cash the company needs from outside sources, including IPOs and similar events, as well as how much cash it needs from its own resources.

**Find the Money Makers:**

Finding out where the money will come from is the next stage in managing finances. Financial backing for the business might come from a variety of sources, including bank loans, private investors, or the broader public via an initial public offering (IPO). The business has access to all of these choices. After weighing the pros and cons of each possible source, the source of funding is chosen.

**Investment of Funds:**

Another facet of financial management is allocating funds to endeavours with a high probability of producing a profit. The financial management team is responsible for determining the amount of risk and the predicted rate of return for each investment. It is also important to choose investment strategies that minimise losses while maximising gains.

**Financial Resource Utilisation and Allocation:**

The goal of sound financial management is to maximise long-term viability, minimise negative impacts on the environment, and provide a healthy return on investment for an organization's cash on hand. Directors of financial departments are tasked with making sure their company's funds are being used efficiently due to the intense competition among businesses.

**Accounting Reports:**

The company's financial management team keeps track of all the important financial reports and uses this data to plan and predict the company's financial activities. Any form of organisation must engage in reporting. Both the financial health and performance of the company are detailed in it. Doing this once a year or three times a quarter is the standard.

**Risk Management:**

Companies that have solid financial management practices in place are better able to foresee problems, prepare for them, deal with unexpected events, and escape unscathed. Loss is an inevitable part of every business endeavour.” Some external factors that could cause problems for businesses include changes in the market that cause sales to drop suddenly, changes in government policy that make taxes harder, and internal factors like equipment faults. Prior to taking any steps to lessen the impact of potential dangers, it is necessary to identify them, evaluate them, and then formulate a strategy to deal with them.

### Three Types of Financial Management



- One of the main goals of financial planning is to help businesses determine their immediate and future cash flow needs. In your opinion, where would one best invest their money to help the economy expand?
- The capital structure determines the methods of financing the company's operations and potential expansion. Financial organisation. One viable option may be to apply for a loan with manageable interest rates. In addition to selling assets like real estate or seeking to attract private equity investors, a corporation may also sell ownership holdings in the company or seek other forms of capital.
- Making sure the company has enough money to pay employees and purchase manufacturing supplies is an important part of working capital management, which focusses on day-to-day operations.

### **Financial management important**

- There are many positive results that may be achieved by using this management approach.
- supports organisations in managing their finances and securing funding; guarantees that acquired funds are used to their fullest potential; aids businesses in making crucial financial choices; enhances company profitability; increases enterprise value overall.
- Guarantees a steady stream of profit.

### **Conclusion**

How sustainable a business is over time is directly related to how healthy its finances are. In terms of financial matters, there is always a ceiling on expenditure. Conversely, there is a practically infinite amount of desires that an individual may have. In order to keep from going bankrupt, a firm needs solid financial management. The management of monetary resources is being done using management principles. Money is often said to be the backbone of a company when discussing business. Managing a company's finances effectively entails a number of steps that come together to form strategic financial management.

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