# Unit 2: The role and importance of financial management

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**2.0 Aims and Objectives**

The purpose of this unit is to introduce you the need of study of financial management, its scope, objectives, functions and relationship with other disciplines.

After going through this unit, you will be able to:

* understand the need of financial management
* list the objectives of financial management
* explain the functions
* narrate the relationship with other disciplines.

**2.1 Introduction**

In the previous unit you have learned the meaning of finance and its relevance in the growth, expansion and diversification of activities. This unit will focus attention on certain vital aspects of financial management.

**2.2 Need of financial management**

You are aware that no business can be started without finance. Finance is a scarce resource which is not available freely and it has cost. All the resources that are useful to any business organization like men, material, machines and money or finance are in nature. Since, they are limited limited, we cannot waste them. These resources are to be used optimally for productive purposes. Finance is one of the resources vital for any business organization. It is scarce, has cost and also alternative uses.

Finance is regarded as the lifeblood of a business enterprise. It is the guide for regularizing investment decisions and expenditure, and endeavors to squeeze the most out of every available birr. It is the sinew of a business activity. No business activity can ever be pursued without financial support. Production and distribution of goods and services in fact, will be a mere dream without flow of funds. Financial viability is perhaps the central theme of any business proposition. That’s why, it has been rightly said that business needs money to make more money. However, it is also true that money begets more money only when it is properly managed. Hence, efficient management of every business enterprise is closely linked with efficient management of its finances.

Financial management involves the management of finance function. It is concerned with the planning, organizing, directing and controlling the financial activities of an enterprise. It deals mainly with raising funds in the most economic and suitable manner; using these funds as profitably as possible; planning future operations; and controlling current performance and future developments through financial accounting, cost accounting, budgeting, statistics and other means. It is continuously concerned with achieving an adequate rate of return on investment, as this is necessary for survival and the attracting of new capital. Thus, financial management means the entire gamut of managerial efforts devoted to the management of finance – both its sources and uses – of the enterprise.

The importance of financial management cannot be over emphasized. In every organization, where funds are involved, sound financial management is necessary. It helps in monitoring the effective deployment of funds in fixed assets and in working capital. As Collins Brooks has remarked “Bad production management and bad sales management have slain in hundreds, but fault financial management has slain in thousands.”

Hence, it can be said that sound financial management is indispensable for any organization, whether it is profit oriented or non-profit oriented. It helps in profit planning, capital spending, measuring costs, controlling inventories, accounts receivable etc., In addition to the routine problems, financial management also deals with more complex problems like mergers, acquisitions and reorganizations.

**2.3 Scope of financial management**

Financial management has undergone significant changes over the years as regards its scope and coverage. As such the role of finance manager has also undergone fundamental changes over the years. In order to have a better exposition to these changes, it will be appropriate to study both the traditional concept and the modern concept of the finance function.

**Traditional Concept:**

In the beginning of the present century, which was the starting point for the scholarly writings on Corporation Finance, the function of finance was considered to be the task of providing funds needed by the enterprise on terms that are most favorable to the operations of the enterprise. The traditional scholars are of the view that the quantum and pattern of finance requirements and allocation of funds as among different assets, is the concern of non-financial executives. According to them, the finance manager has to undertake the following three functions:

* 1. arrangement of funds from financial institutions;

ii) arrangement of funds through financial instruments, Viz., shares, bonds, etc

iii) looking after the legal and accounting relationship between a corporation and its sources of funds.

The traditional concept found its first manifestation, though not systematically, in 1897 in the book ‘Corporation Finance’ written by Thomas Greene. It was further impetus by Edward Meade in 1910 in his book, ‘Corporation Finance’. Later, in 1919, Arthur Dewing brought a classical book on finance entitled “The Financial Policy of Corporation.”

The traditional concept evolved during 1920s continued to dominate academic thinking during the forties and through the early fifties. However, in the later fifties the traditional concept was criticized by many scholars including James C. Van Horne, Pearson Hunt, Charles W. Gerstenberg and Edmonds Earle Lincoln due to the following reasons:

* 1. The emphasis in the traditional concept is on raising of funds, This concept takes into account only the investor’s point of view and not the finance manager’s view point.
  2. The traditional approach is circumscribed to the episodic financing function as it places overemphasis on topics like types of securities, promotion, incorporation, liquidation, merger, etc.
  3. The traditional approach places great emphasis on the long-term problems and ignores the importance of the working capital management.
  4. The concept confined financial management to issues involving procurement of funds. It did not emphasis on allocation of funds.
  5. It blind eye towards the problems of financing non-corporate enterprises has yet been another criticism.

In the absence of the coverage of these crucial aspects, the traditional concept implied a very narrow scope for financial management. The modern concept provides a solution to these shortcomings.

**Modern Concept:**

The traditional concept outlived its utility due to changed business situations since mid-1950’s. Technological improvements, widened marketing operations, development of a strong corporate structure, keen and healthy business competition – all made it imperative for the management to make optimum use of available financial resources for continued survival of the firm.

The financial experts today are of the view that finance is an integral part of the overall management rather than mere mobilization of the funds. The finance manager, under this concept, has to see that the company maintains sufficient funds to carry out the plans. At the same time, he has also to ensure a wise application of funds in the productive purposes. Thus, the present day finance manager is required to consider all the financial activities of planning, organizing, raising, allocating and controlling of funds. In addition, the development of a number of decision making and control techniques, and the advent of computers, facilitated to implement a system of optimum allocation of the firm’s resources.

These environmental changes enlarged the scope of finance function. The concept of managing a firm as a system emerged and external factors now no longer could be evaluated in isolation. Decision to arrange funds was to be seen in consonance with their efficient and effective use. This systems approach to the study of finance is being termed as ‘Financial Management’. The term ‘Corporation Finance’ which was used in the traditional concept was replaced by the present term ‘Financial Management.’

The modern approach view the term financial management in a broad sense and provides a conceptual and analytical framework for financial decision-making. According to it, the finance function covers both acquition of funds as well as their allocation.

**2.4 Objectives of financial management**

Financial management, as an academic discipline, is concerned with decision-making in regard to the size and composition of assets and structure of financing. To make wise decisions, a clear understanding of the objectives which are sought to be achieved is necessary. The objectives provides a framework for optimum financial decision making. Let us now review the well known and widely discussed approaches available in financial literature viz., (a) Profit Maximization and (b) Wealth Maximization.

**Profit Maximization:**

According to this approach, actions that increase profits should only be undertaken. Here, the term “Profit” can be used in two senses: (1) As owner – oriented concept it refers to the amount and share of national income which is paid to the owners of business, i.e., those who supply equity capital; (2) A variants for the term is profitability. It is an operational concept and signifies economic efficiency. In other words, profitability refers to a situation where output exceeds input, i.e., the value created by the use of resources is more than the total of the input resources. Used in this sense, profitability maximization would imply that a firm should be guided in financial decision-making by one test – select assets, projects and decisions which are profitable and reject those which are not. In the current financial literature, there is a general agreement that profit maximization is used in this sense.

The profit maximization theory is based on the following important assumptions:

1. This theory is bases purely on the rationality of the individuals and the firms.
2. It promotes the use of resources to the best of their advantage of gain maximum out of them.
3. It leads to the economic selection of the resources.’
4. It enhances the National Income of the country through efficient and increased production.

However, the profit maximization objective has been criticized in recent past it is argued that profit maximization is a consequence of perfect competition and in the context of today’s imperfect competition, it cannot be taken as a legitimate objective of the firm. It is also argued that profit maximization, as a business objective, developed in the early 19th Century when the characteristic features of the business structure were self-financing, private property and single entrepreneurship. The only aim of the enterprises at that time was to enhance the individual wealth and personal power, which could easily be satisfied by the profit maximization objective. The formation of joint stock companies resulted in the divorce between management and ownership. The business firm today is financed by owners – the holders of its equity capital and outsiders (creditors) and controlled and directed by professional managers. The other interested parties connected with the business firm are customers, employees, government and society. In this changed business structure, the owner-management of the 19th century has been replaced by professional manager who has to reconcile the conflicting objectives of all the parties connected with the business firm. In this new business environment, profit maximization is regarded as unrealistic, difficult, inappropriate and immoral.

Apart from the aforesaid objections, the other important technical flaws of this criterion are:

1. There is a lack of unanimity regarding the concept of profit. There are various terms such as gross profit, net profit, earnings, short-term profit and long-term profit.
2. Profits while enhancing the national income, may not contribute to the welfare of the poor, because they may lead to concentration of income and wealth.
3. The assumptions on which it is based are untenable. There exists no perfect competition in the market. Similarly, all countries do not favor the idea of free enterprises economy. There exists certain controls, which will limit the profit maximizing capacity of the undertakings.
4. This theory is also criticized for ignoring the timing of returns and risk. It doesn’t take the returns in terms of their present value.

***Ex. 1***   **Project A Project B**

**Benefits in Birrs Benefits in Birrs**

Period 1 5, 000 \_

2 10, 000 10, 000

3 5, 000 10, 000

20, 000 20, 000

Though A, B generating some profit A is preferred quality of benefits

***Ex. 2*** Uncertainty about expected profits

**Profits in Birrs**

State of Economy A B

Recession 1, 000 0

Normal 1, 000 1, 000

Boom 1, 000 2, 000

3, 000 3, 000

Again we prefer A than B

1. More so, the term profit is viewed contempt. Every section of the society feels that they are fleeced by the enterprise. For example, consumers may feel that they are charged high prices.

Hence, the profit maximization has lost its relevance in the present day circumstances. Many financial experts like Van Horne, Weston and Brigham, Pondey, Gitman, Kuchhal, Khan, and Prasanna Chandra are now advocating for the maximization of wealth as the objective of the firm.

**Wealth Maximization:**

This approach is also known as Value Maximization or Nor Present Wealth Maximization. Wealth maximization means maximizing the net present value (NPV) of a course of action. The NPV of a course of action is the difference between the gross present value (GPV) of the benefits of that action and the amount of investment required to achieve those benefits. The GPV of a course of action is found out by discounting or capitalizing its benefits at a rate which reflects their timing and uncertainty. A financial action which has a positive NPV creates wealth and therefore, is desirable. A financial action resulting in negative NPV should be rejected. Between a number or desirable mutually exclusive projects, the one with the highest NPV should be adopted. The wealth or NPV of the firm will be maximized if this criterion is followed in making financial decisions.

According to Ezra Solomon, the Wealth Maximization Approach provides an unambiguous measure of what financial management should seek to maximize in making investment and financing decisions. Using Solomon’s symbols and methods, the NPV can be calculated as shown below:

i) W = V - C

Where W = Net Present Wealth

V = Gross Present Wealth

C = Investment required to acquire the asset.

ii) V = 

Where E = Size of future benefits available to the suppliers of the input capital.

K = The capitalization (discount) rate reflecting the quality (certainty/uncertainty) and timing of benefits attached to E.

= G – (M+I+I)

Where G = Average future flow of Gross Annual Earnings expected from the course of action, before providing for maintenance charges, taxes and interest and other prior charges like preference dividend.

M = Average annual re-investment required to maintain G at the protected level.

I = Expected flow of annual payments on account of interest, preference dividends and other prior financial charges.

T = Expected annual outflow on account of taxes.

The operational objective of financial management is the maximization of ‘W’. Alternatively ‘W’ can be expressed symbolically by a short-cut method:

W = 

Where W = Net Present Wealth

A1, A2, An = Stream of cash flows expected to occur from a course of action over a period of time.

K = Appropriate discount rate to measure risk and timing.

C = Initial outlay to acquire that asset or pursue the course of action.

From the above, it is clear that the wealth maximization criterion is based on the concept of cash flows generated by the decision rather than accounting profit which is the basis of the measurement of benefits in the case of profit maximization criterion. In addition to this, wealth maximization criterion consider both the quantity and quality dimensions of benefits.

The wealth maximization objective is consistent with the objective of maximizing the owners’ economic welfare. Maximizing the economic welfare of owners is equivalent of the company’s shares. Therefore, the wealth maximization principle implies that the fundamental objective of a firm should be to maximize the market value of its shares.

The objective of shareholders’ wealth maximization has a number of distinct advantages. It is conceptually possible to determine whether a particular financial decision is consistent with this objective or not. If a decision made by a firm has the effect of increasing the long-term market price of the firm’s stock then it is a good decision. If it appears that certain action will not achieve this result then the action should not be taken. The wealth maximization objective acceptable as an operationally feasible criterion to guide financial decisions only when it is consistent with the interests of all those groups such as shareholders, creditors, employees, management and the society.

From the above discussion, it can be said that wealth maximization is the most appropriate and operationally feasible decision criterion for financial management decisions. But, wealth maximization cannot be achieved by overnight. It takes years of sustained hard work, combined with patience and perseverance. In the opinion of NJ. Yasaswy even as companies vigorously pursue to maximize their wealth in the long-run, in the short-run they have to focus on four important objectives, viz., Survival, Cash Flow, Break Even Point and Minimum Profits.

**Check Your Progress –1**

1. List the objectives of financial management.

**………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………**

1. Why profit maximization is criticized?

**………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………………**

**2.5 Relationship with other disciplines**

You have learned in the previous unit that financial management is an integral part of over all management. It is not an independent area. It draws heavily on related fields of study namely economics, accounting, marketing, production and quantitative methods. We shall see the relationship with other disciplines.

***Finance and Economics:*** You are aware that the economics has two branches one is macroeconomics and the other is microeconomics. Financial management has close relationship with each of these.

***Macro-economics:*** The macro-economics is the study of the economy as a whole. It causes the institutional structure of the banking system money and capital markets, financial intermediaries monetary, credit and fiscal policies and economic policies dealing with and controlling level of activity within an economy. The financial manager is expected to know how monetary policy affects cost and availability of funds, undertake fiscal policy it’s affect on economy, aware the financial institutions and their modes of operations to tap financial sources so on and so forth.

***Micro-economics:*** It deals with the individual firms and will permit the firms to achieve success. The theories of micro-economics like demand supply relation and pricing strategies, measurement of utility, preference, risk and determination of value are highly useful to a finance manager to take decisions to maximize profits.

***Finance and Accounting:*** There is close relationship between accounting and finance. Accounting is sub function of finance. The data / information supplied by the accounting like income statement, balance sheet will serve as basis for decision making in financial management. But there are certain key differences between the two.

1. **Treatment of funds:** The income statement prepared in accounting is based on the accrual principle. Accounting records the expenditure as and when it incurs ignoring the payments made, similarly, the revenue is recognized at the time of sale irrespective of the cash receipt. Whereas financial management is based on cash flows which are necessary to satisfy the obligations and acquire assets.
2. **Decision-making:** Accounting collects data, prepares financial statements and presents to the top management. Financial managements will make decisions on the basis of data supplied by accounting. It relates to financial planning, controlling and decision making.

Finance and marketing, production, quantitative methods. The finance manager has to consider the impact of product development and promotion plans made in marketing will have impact on the projected cash flows. The new production process may entail additional capital expenditure. The tools that are developed by the quantitative methods are helpful in analyzing complex financial problems.

Primary Disciplines

1. Accounting
2. Macro economics
3. Micro-economics

**Financial Decision Areas**

**Support**

1. Investment analysis
2. Working capital management
3. Sources and costs of funds
4. Capital structure decisions
5. Dividends policy
6. Analysis of risk and return

**Support**

Other Related Discipline

1. Marketing
2. Production
3. Quantitative Methods

**Resulting by**

Shareholder wealth maximization

***Source:*** **Financial Management Mykhan & PkJam**

**2.6 Functions of Financial Management**

The finance functions are very important in the management of a business organization. Irrespective of any difference in structure, ownership and size, the financial organization of the enterprise ought to be capable of ensuring that the various finance functions planning and controlling are carried at the highest degree of efficiency. The profitability and stability of the business depends on the manner in which finance functions are performed and related with other business functions.

The finance functions may be broadly divided into two categories.

1. Executive finance functions and
2. Non-executive/Routine finance functions

The routine functions are repetitive in nature and the focus of financial management will be on the executive functions.

The finance function mainly deals with the following three decisions:

1. Investment Decision.
2. Financing Decision.
3. Dividend Decision.

Each of these functions must be considered in relation to the objective of the firm. The optimal combination of these finance functions will maximize the value of the firm to its shareholders. Fig. 1.1 given below, clearly depicts how the decisions relating to three finance functions lead to the maximization of the market value of the firm.

Market Value of the firm

Risk

Return

Dividend

Decisions

Financing

Decisions

Investment

Decisions

**1. Investment Decision**

The investment decision relates to the selection of assets in which funds will be invested by a firm. The assets which can be acquired fall into two broad groups: (i) long-term assets which will yield a return over a period of time in future, (ii) short-term or current assets defined as those assets which are convertible into cash usually within a year. Accordingly, the asset selection decision of a firm is of two types. The first of these involving fixed assets is popularly known as ‘Capital Budgeting’. The aspect of financial decision-making with reference to current assets or short-term assets is designated as ‘Working Capital Management.’

**Capital Budgeting:** Capital budgeting refers to the decision making process by which a firm evaluates the purchase of major fixed assets, including buildings, machinery and equipment. It deals exclusively with major investment proposals which are essentially long-term projects. It is concerned with the allocation of firm’s scarce financial resources among the available market opportunities. It is a many-sided activity which includes a search for new and more profitable investment profitable investment proposals and the making of an economic analysis to determine the profit potential of each investment proposal.

Capital Budgeting involves a long-term planning for making a financing proposed capital outlays. Most expenditures for long-lived assets affect a firm’s operations over a period of years. They are large and permanent commitments, which influence firm’s long-run flexibility and earning power. It is a process by which available cash and credit resources are allocated among competitive long-term investment opportunities so as to promote the highest profitability of company over a period of time. It refers to the total process of generating, evaluating, selecting and following up on capital expenditure alternatives. Capital budgeting decision, thus, may be defined as the firm’s decision to invest its current funds most efficiently in long term activities in anticipation of an expected flow of future benefits over a series of years.

Because of the uncertain future, capital budgeting decision involves risk. The investment proposals should, therefore, be evaluated in terms of both expected return and the risk associated with the return. Besides a decision to commit funds in new investment proposals, capital budgeting also involves the question of recommitting funds when an old asset becomes non-profitable. The other major aspect of capital budgeting theory relates to the selection of a standard or hurdle rate against which the expected return of new investment can be assessed.

Working Capital Management: Working Capital Management is concerned with the management of the current assets. The finance manager should manage the current assets efficiently for safe-guarding the firm against the dangers of liquidity and insolvency. Involvement of funds in current assets reduces the profitability of the firm. But the finance manager should also equally look after the current financial needs of the firm to maintain optimum production. Thus, a conflict exists between profitability and liquidity while managing the current assets. As such the finance manager must try to achieve a proper trade-off between profitability and liquidity.

Another aspect to which the finance manager of a company has to pay attention is maintenance of a sound working capital position. He often times confronted with excess and shortages of working capital. While an excessive working capital leads to un remunerative use of scarce funds; inadequate working capital interrupts the smooth flow of business activity and impairs profitability. History is replete with instances where paucity of working capital has posed to be the major contributing factor for business failures. Nothing can be more frustrating for the operating managers of an enterprise than being compelled to function in a continuing atmosphere of lack of availability of funds to meet their important and urgent operating needs.

Not only the inadequacy of working capital poses a threat to the finance manager, but also its abundance. Availability of more than required amount of funds causes an unchecked accumulation of inventories. Further, there may be a tendency to grant more and more credit without properly looking into the credentials or the customers. Moreover, idle cash earns nothing and it is unwise to keep large quantities of cash with the firm. Thus, the need to have adequate working capital in a firm need not be overemphasized.

**2. Financing Decision:**

In this function, the finance manager has to estimate carefully the total funds required by the enterprise, after taking into account both the fixed and working capital requirements. In this context, the financial manager is required to determine the best financing mix or capital structure of the firm. Then, he must decide when, where and how to acquire funds to meet the firm’s investment needs.

The central issue before the finance manager is to determine the proportion of equity capital and debt capital. He must strive to obtain the best financing mix or optimum capital structure for his firm. The use of debt capital affects the return and risk of shareholders. The return on equity will increase, but also the risk. A proper balance will have to be struck between return and risk. When the shareholders return is maximized with minimum risk, the market value per share will be maximized and firm’s capital structure would be optimum. Once the financial manager is able to determine the best combination of debt and equity, he must raise the appropriate amount through best available sources.

The following points are to be considered while determining the appropriate capital structure of a firm:

1. Factors which have bearing on the capital structure.
2. Relationship between earnings before interest and taxes (EBIT) and earnings per share (EPS).
3. Relationship between return on investment (ROI) and return on equity (ROE).
4. Debt capacity of the firm.
5. Capital structure policies in practice.

**3. Dividend Decision:**

It is a fact that in spite of the various other factors which influence the market value of shares, dividend payment has been considered to be the foremost. In this context, the finance manager must decide whether the firm should distribute all profits or retain them, or distribute a portion and retain the balance. Sometimes, the profits of the company are fully diverted towards its capital expenditure or establishment of new projects so as to minimize further borrowings. While there may be some justification in diverting profits to some extent, the claims of shareholders for dividends cannot be completely overlooked.

The finance manager has to develop such a dividend policy which divides the net earnings into dividends and retained earnings in an optimum way to achieve the objective of maximizing the market value of firm. He should also concentrate his attention on issues like the stability of dividend, bonus issue etc.

**2.7 Conflict of goals**

In a corporate form of organization share holders will appoint the directors and managing director to carry on the business on their be half. They represent the management. In a complex organization various parties are interested in the affairs of a business. The parties interested in the business are owners, creditors, customers, government etc. The management may not necessarily act in the interest of owners and may pursue its personal goals. In addition, they have to strike a balance between the interest of owners and other parties interest, who has stake in the business organization.

There can, however, arise situations where a conflict may occur between the shareholders and the management goals. For example, management may play safe and create satisfactory wealth for shareholders than the maximum.

**2.8 Organization of finance department**

A well-organized finance department is absolutely essential for the efficient financial management of an enterprise. If finance department does not operate well, the whole organizational activity will be ruined. Hence, it is essential that the finance department should be well organized with nucleus staff from the time of project stage, so that expert guidance and advise regarding the various proposals are available to the management in planning and managing the project.

The finance function, although, is controlled by the top management, there will be a separate team to look after these activities and this function will be sub-divided according to the needs. A common structure of the finance department cannot be evolved as the size of the firm and nature of the business vary, from firm to firm.

A self-explanatory organization structure of finance department in a large organization is given below.

PRESIDENT

Treasurer

Controller

V.P HUMAN RESOURCES

V.P FINANCE

V.P PRODUCTION

V.P MARKETING

Functions

Functions

1. Accounting 1. Cash and Bank management
2. Cost Accounting 2. Investments
3. Budgeting 3. Tax matters
4. Internal Audit 4. Insurance
5. Collections creditors 5. Investor Relations.
6. Financial planning
7. Profit planning
8. Investment decisions
9. Assets management
10. Economic Appraisal

**Role of Finance Manager:**

The finance manager, who is mainly responsible for managing the finances of a firm, plays a dynamic role in the development of a modern organization. For the effective conduct of finance function he is responsible for assisting the managers and supervisors in carrying out these activities and for ensuring that their line instructions confirm to the relevant specialist policy. The Finance Manager besides supervising the routine functioning of his department, also keeps the Board of Directors informed on all phases of business activity, including the economic, technological, social, cultural, political and legal environment effecting business behavior.

The finance manager generally holds one of the senior-most positions in the company, directly reporting to the President. He is primarily responsible for the entire cost, finance, accounting and taxation departments in addition to the overall administration and secretarial departments. The functions and responsibilities of the finance manager of a company generally include the following:

1. To determine the extent of financial resources needed, and the way these needs are to be met;
2. To formulate programs to provide most effective profit volume-cost relationship;
3. To analyze financial results of all operations, reporting the fact to the top management and make recommendations concerning future operations;
4. To carry out special studies with a view to reducing costs and improving efficiency and profitability;
5. To examine feasibility studies and detailed project reports mainly from the point of view of overall economic viability of the project;
6. To be the principal coordinating officer for preparing and operating long-term, annual and capital budgets;
7. To lay down suitable purchase procedures to ensure adequate control over all purchases of raw material and equipments, etc.,
8. To advise the chief executive on pricing, policies, interdepartmental issues including charging of overheads to jobs, etc;
9. To advise on all service matters to staff, such as scale of pay, dearness allowance, bonus, gratuity etc;
10. To act as principal officer in charge of accounts, including cost and stores accounts and internal audit;
11. To ensure that annual accounts are prepared in time according to the provisions of the company law, and to attend to external audit;
12. To be the custodian of the cash and the principal disbursing officer of the enterprise;
13. To be responsible for attending to all tax matters;
14. To ensure that market surveys are carried out by the management;
15. To furnish prospective costs of products, to enable the management to determine the optimum product max; and
16. To prepare various period reports to be submitted to various authorities including financial institutions government.

**2.9 Summary**

The subject financial management has undergone many changes due to the continuous resealed in western countries. The traditional concept is concerned with the provision of funds only. The modern concept trials finance as an integral part of the overall management rather than mere mobilization of funds. The wealth maximization is considered superior than profit maximization. The finance functions include

a) investment decisions b) financing decisions and c) dividend decisions