Abstract

This paper investigates the necessity of effective utilization of funds. Financial Management involves critical management of funds. This simply implies optimizing monetary resources to meet with unavoidable risk cover and expenses. The management of finance is crucial to personal and business welfare! Financial Management means putting together the economic resources at hand to make efficient use of them and taking decisions that can successfully culminate in acquiring more assets for the family or business. With effective management of funds, you can even attract finance to meet the short term and long term requirement of the family or firm. The whole process is intense and deals with the selection of specific or a combination of assets to deal with a financial issue, if any.

Keywords: effective utilization of funds, financial management, fiscal growth.

Introduction

Financial management is that managerial activity which is concerned with planning and controlling of the firm’s financial resources. In other words it is concerned with acquiring, financing and managing to accomplish the overall goal of business enterprise (mainly to maximize the shareholders wealth).

In today’s world where positive cash flow is more important than book profit, financial management can also be defined as planning for the future of a business enterprise to ensure a positive cash flow. Some experts also refer to financial management as the science of money management.

“Financial management comprises the forecasting, planning, organizing, directing, coordinating and controlling of all activities relating acquisition and application of the financial resources of an undertaking in keeping with its financial objective.” Raymond Chambers

As such it deals with the situations that require selection assets, the selection of specific problem of size and growth of an enterprise. The analysis of these decisions is based on the expected inflows and outflows of funds and their effect on managerial objectives.

There are two basic aspects of financial management viz., procurement of funds and effective use of these funds to achieve business objectives.

Effective utilization of funds

The financial manager is also responsible for effective utilization of funds. He has to point out situations where the funds are being kept idle or where proper use of funds is not being made. All the funds are procured at a
certain cost and after entailing a certain amount of risk. If these funds are not utilized in the manner so that they generate an income higher than the cost of procuring them, there is no point of running the business. Hence, it is crucial to employ the funds properly and profitably. Some of the aspects funds utilization are:-

1. Utilization for fixed assets

The funds are to be invested in the manner so that the company can produce at its optimum level without endangering its financial solvency. For this, the financial manager would be required to possess sound knowledge of techniques of capital budgeting.

2. Utilization of working capital

The finance manager must also keep in view the need for adequate working capital and ensure that while the firms enjoy an optimum level of working capital they do not keep too much funds blocked in inventories, book debts, cash etc.

Financial Planning

The Finance Manager has to estimate the financial requirements of the company. He should determine the sources from which capital can be raised and determine how effectively and judiciously these funds are put into use so that repayments can be done in time. Financial planning is deciding in advance the course of action for future.

Estimation of the amount of funds to be raised, finding out the various sources of capital and the securities offered against the money so received and laying down policies to administer the usage of funds in the most appropriate way.

Estimate capital requirements: This is the first step in financial planning. The following factors may be used to determine the capital:

- Requirement of fixed assets.
- Investment intangible assets like patents, copyrights, etc.
- Amount required for current assets like stocks, cash, bank balances, etc.
- Cost of set-up and likely expenses to be incurred on the new issue of shares and debentures.

Determine the type of sources to be acquired and their proportion

The Finance Manager has to decide on the form in which the money is to be sourced, that is, debt, equity, preference shares, loans from banks and the proportion in which these are to be procured.

Steps in Financial Planning

The financial planning process involves the following steps:

1. Projection of financial statements

Financial statements are the company's profit and loss account and the balance sheet. These two statements can be prepared for a certain period of future
time and they help the manager to determine the amount of fund requirements.

2. Determination of funds needed:

Once the projections are drawn in terms of sales of products, the cost of production, marketing activities, etc., the Finance Manager can draw up a plan as to the fund requirement based on the time factor. He can know whether the funds are to be procured on a short term basis or on a long term basis.

3. Forecast the availability of funds

A company will have a steady flow of funds. If the manager is able to forecast these amounts properly, then the moneys to be borrowed can be reduced, thus saving on the interest payments.

4. Establish and maintain control system:

Control system is ineffective without adequate planning and the adequacy of planning can be gauged only through proper control measures. Both these activities are essential for effective utilization of funds.

5. Develop procedures:

Procedures should be developed for basic plans how they should be achieved.

Financial Management

Financial Management involves critical management of funds. This simply implies optimizing monetary resources to meet with unavoidable risk cover and expenses. The management of finance is crucial to personal and business welfare! Financial Management means putting together the economic resources at hand to make efficient use of them and taking decisions that can successfully culminate in acquiring more assets for the family or business. With effective management of funds, you can even attract finance to meet the short term and long term requirement of the family or firm. The whole process is intense and deals with the selection of specific or a combination of assets to deal with a financial issue, if any. The aim of financial management is to reduce the size of a problem and ensure fiscal growth of the enterprise or family funds.

Financial Management Analysis

This analysis deals with the calculated and predicted cash inflow and outgoings. The analysis is directed towards the study of the effect of existent funds on managerial objectives. Financial management handles everything from procuring the funds to effective utilization of the same. Dedicated analysis handles procurement of funds from multiple sources and since the funds are from different sources, they naturally need to be addressed considering the difference with regards to the potential risk and control.

Tips on Effective Financial Management

effective financial management involves the optimum use of funds issued via equity, especially in the case of a business. This source is the best from risk point of view, since there is no involvement of any repayment. Management of business funds should ideally capitalize on equity capital, in spite of it being the most expensive source of funds. Effective management
of finances involves calculation of risk, cost and control and maintaining the cost of funds at minimum. This is done with the intent of establishing a proper balance between the involved risk and optimized control.

Tapping Foreign Investments in the competitive business world today, mobilization of funds is very important. The implications play a very significant role in the overall growth of the venture. Financial management involves the raising of funds through the domestic and foreign market. When considering overseas solutions, direct investments and foreign institutional investments are major resources to tap, to raise the required funds. The whole financial management mechanism designed for effective procurement of funds has to be periodically reviewed and modified, understanding the changing requirements of foreign investors.

Utilization of Funds

Financial management cannot be addressed without first designing a strategy to ensure the proper utilization of funds. This helps to evade situations in which the funds remain idle or lack of profitable utilization of funds in hand. When availing of funds for the business it is important to understand the involved cost and risk factors. Wastage of funds will only result in the business short and long-term objectives not being met and ultimately - loss! The funds existent within the business should be critically reviewed from time to time and employed properly and profitably.

Scope and Extent

It has become imperative to address sound financial management in all types of organizations, to guarantee efficient use of all resources. Research reveals that many firms liquidate because of mismanagement of funds and not, as it is commonly believed, because of obsolete technology or the lack of skilled labor. Financial management is designed and customized according to different client needs to optimize output from the assessed fund input. In a situation where resources seem scarce and the demand for funds is high, proper financial management is an absolute necessity.

The objectives of efficient financial management include maximization of profit. However, profit maximization is a limited objective and if it becomes the sole focus, then the approach only leads to more problems! Profit maximization must take into consideration the relationship between risk and profit and work towards achieving a balance. The value of a business is analyzed on the evaluation of the stock market price. Financial management should take into account present and expected future income and the dividend policy of the firm to come up with a near perfect understanding of the company's progress potential.

Achieving More with Less: Optimal Use of Surplus Funds

Many major businesses are failing to maximize their available cash due to a lack of effective treasury management practices. With a more efficient and strategic approach to managing their cash, businesses can make their surplus cash work harder for them, helping them to grow further.
In response to the ongoing economic instability, many firms are currently playing it safe with regards to their surplus cash. The trend is to pay out large dividend payments, when that cash could be used to increase company’s returns. This longer-term view can be achieved with the help of a treasury management solution, which can help to centralize treasury functions, improving cash visibility and the number of opportunities to maximize returns on surplus funds.

Once a business has established its financial strategy and its goals for moving the company forward and maximizing growth, it is important that it aligns its treasury management practices with these goals. There are several ways that firms can generate better returns on their surplus cash, improving a company’s future growth prospects, while also optimizing short-term returns.

Cash Pooling

Providing a business has excellent cash visibility, cash pooling can be an effective way to optimize the use of surplus funds. The practice of moving cash around accounts to benefit from the very best credit and debit positions possible can help corporations to increase their interest returns. Cash pooling will also help them to minimize their exposure to unnecessary borrowing and protect against negative bank balances, which can impact both their finances and their reputation.

From an administrative point of view, cash pooling can benefit firms as they can concentrate all activity on a single account, where sufficient funds are always in place. This way they don’t incur unnecessary bank fees and can generate income from interest paid on larger balances.

These assets can then be used to help grow the company or provide a strong buffer in the event of further economic downturns.

Intra-company Netting

Similarly, intra-company netting – offsetting cash flows between corporate bank accounts to minimize the overall number of transactions required - also helps businesses to optimize the use of their surplus funds by reducing the cost of carrying out cross-border business. Global firms need to bear these costs in mind and those that practice netting reduce this financial burden by settling costs incurred when cash is moved between international business units belong to the same corporation. Minimizing foreign exchange exposures by offsetting accounts receivable and accounts payable within the same business can help enhance assets.

Cash Visibility

All this is only possible by gaining a high level of cash visibility, so that a treasury department has immediate insight into their international bank balances whenever they need it. Chief Financial Officers are increasingly being asked to achieve more with less and this is why optimal use of available funds is so essential in today’s business world. Companies are expanding overseas and are finding themselves with complex cash positions that need to be tracked and optimized at all times and this is a challenge too far for many. As a
result, some resort to easy options, such as dividend payments, instead of maximizing returns from the surplus they are generating.

By implementing a treasury management solution, businesses gain an enhanced level of cash visibility, which equips them with the insight they need to turn their surplus into some serious profit.

Meaning of Financial Management

As we know finance is the lifeblood of every business, its management requires special attention. Financial management is that activity of management which is concerned with the planning, procuring and controlling of the firm's financial resources.

The scope and coverage of financial management have undergone fundamental changes over the last half a century. During 1930s and 1940s, it was concerned of raising adequate funds and maintaining liquidity and sound financial structure. This is known as the 'Traditional Approach' to procurement and utilization of funds required by a firm. Thus, it was regarded as an art and science of raising and spending of funds. In the words of Paisco, "In a modern money using economy, finance may be defined as the provision of money at the time it is wanted." The traditional approach emphasized the acquisition of funds and ignored efficient allocation and constructive use of funds. It does not give sufficient attention to the management of working capital.

During 1950s, the need for most profitable allocation of scarce capital resources was recognized. During 1960s and 1970s many analytical tools and concepts like funds flow statement, ratio analysis, cost of capital, earning per share, optimum capital structure, portfolio theory etc. were emphasized. As a result, a broader concept of finance began to be used. Thus, the modern approach to finance emphasizes the proper allocation and utilization of funds in addition to their economical procurement. Thus, business finance, in the words of Authman and Dongall, may broadly be defined as "the activity concerned with the planning, raising, controlling and administering of funds used in the business." Modern business finance includes - (i) determining the capital requirements of the firm. (ii) raising of sufficient funds to make an ideal or optimum capital structure, (iii) allocating the funds among various types of assets and (iv) financial control so as to ensure efficient use of funds.

Corporation Finance

The most important area of business finance is the corporation finance because the big business firms require a huge capital which is procured from the market/public. So, an efficient use of funds is very essential. Huge business houses employ expertise to raise and utilize finance from various sources. The corporation finance refers to the planning, raising, administrating and controlling. Thus, it refers to planning, raising, administrating and financing of expansion of business and the financial adjustments.

Objectives of Finance Function

For optimum financial decisions, the objectives of financial management shall be clearly defined. They should be so laid down that they contribute directly
towards the achievement of overall business objectives. Objectives provide a normative framework within which a firm is to take decisions. Financing is the functional area of objective of the business and contribute directly towards it. The main objectives of a business are survival and growth. In order to survive ups and downs in the business, the business must earn sufficient profits and it should also maintain proper relations with shareholders, customers, suppliers and other social groups. The financial management of an organization must seek to achieve the following objectives:

- To ensure adequate and regular supply of funds.
- To provide a fair rate of return to the suppliers of capital viz. shareholders.
- To ensure effective utilization of funds by maintaining proper balance between profitability, liquidity and safety.
- To generate and build up sufficient surplus for expansion and growth through ploughing back of profits.
- To minimize cost of capital by developing a sound capital structure between various securities issued by the company.
- To coordinate the activities of the finance department with the activities of other departments in the organization.

Scope of Functions of Financial Management

The finance department of an enterprise performs several functions in order to achieve the above objectives. The scope of finance function is very wide. It consists of the following activities:

Estimating the Requirement of Funds

The finance department must estimate the capital requirements of the firm accurately for long term and short term needs. In estimating the capital requirements of the business, the finance department must take help of the budgets of various activities of the business e.g. sales budget, production budget, expenses budget etc. prepared by the concerned departments. In the initial stage, the estimate is done by promoters but in a growing concern, it is done by the finance department. Unless the financial forecast is correct, business is likely to run into difficulties due to excess or shortage of funds. Correct estimates ensure the availability of funds as and when they are needed. In estimating the requirement of funds, nature and size of the business, modernization and expansion plan should be given due consideration.

Determining the Capital Structure

By capital structure we mean the kind and proportion of different securities for raising the required funds. Once the total requirement of funds is determined, a decision regarding the type of securities to be issued and the relative proportion between them is to be taken. The finance department must determine the proper mix of debt and equity. It should also decide the ratio between long term and short term debts. In determining these ratios, cost of raising finance from different sources, period for which funds are required and several other factors should be considered. A proper balance between risk and returns should be maintained.

Choice of Sources of Finance
A company can raise funds from different sources e.g. shareholders, debenture holders, banks, financial institutions, public deposits etc. Before raising the funds, it has to decide the source from which the funds are to be raised. The choice of the source of finance should be made very carefully by taking a number of factors into account such as cost of raising funds, conditions attached, charge on assets, burden of fixed charges, dilution of ownership and control etc. For example, if the company does not want to dilute the ownership, it will depend on any source of finance other than investment in shares.

Investment of Funds

The funds raised from different sources should be prudently invested in various assets - short term as well as long term to optimize the return on investment. In taking decisions for the investment of long term funds, a careful assessment of various alternatives should be made through capital budgeting, opportunity cost analysis and many other techniques used to evaluate the investment proposals. A part of the long term funds should be invested in working capital of the company. While taking decision for the investment of funds in long term assets, management should be guided by three basic principles, viz. safety, profitability and liquidity. In taking decisions for the investment of funds in working capital, the finance manager must seek cooperation of marketing and production departments in estimating the funds which are to be involved in carrying of inventories in finished product and credit policy of the marketing department and in raw material and factory supplies of the production department.

Management of Cash

It is the prime responsibility of the finance manager to see that an adequate supply of cash is available at proper time for the smooth running of the business. Cash is needed to purchase raw materials, pay off creditors, to pay to workers and to meet the day to day expenses of the business. Availability of cash is necessary to maintain liquidity and credit- worthiness of the business. Excess cash must be avoided as it costs money. It there is any cash in excess, it should be invested in near cash assets such as investments etc. which may be converted into cash within no time. A cash flow statement should be prepared by the department to know the correct need of cash is essential to achieve the goal of profitability and liquidity. The finance manager should decide in advance how much cash he should retain to meet current obligations of the company.

Disposal of Surplus

One of the prime functions of the finance department is to allocate the surplus. After paying all taxes, the available surplus of the business can be allocated for three purposes -(a) for paying dividend to the shareholders as a return on their investment, (b) for distributing bonus to workmen and company's contribution to other profit sharing plans, and (c) for ploughing back of profits for the expansion of business. As far as the second alternative is concerned, the amount to be paid to workers is generally fixed either by statute or by agreement and therefore,
there is no problem in allocating surplus for this purpose. But a considerable, attention is to be paid in so far as first and third alternatives are concerned i.e., how much to be paid to shareholders as dividend and how much to be retained in the business. For this purpose factors like the trend of the earning of the company, trend of the market price of its shares; the requirement of funds for the purpose of expansion and future prospects should be considered.

Financial Controls

The financial manager is under an obligation to check the financial performance of the funds invested in the business. There are a number of techniques to evaluate the performance viz. Return on Investment (ROI), budgetary control, cost control, internal audit, ratio analysis and break-even point analysis. The financial manager must lay emphasis on financial planning as well.

Conclusion

This paper reveals all related information for efficient and effective utilization of funds and requirement for effective utilization of funds. The aim of financial management is to reduce the size of a problem and ensure fiscal growth of the enterprise or family funds. As we know finance is the lifeblood of every business, its management requires special attention. Financial management is that activity of management which is concerned with the planning, procuring and controlling of the firm's financial resources. Without effective utilization of funds, no organization is survived. Any organization future is depends upon the effective utilization of funds like growth, expanding the company, long run of the company. Now, every concern is faced the problem of idle funds. So, funds used effectively then the organization has healthy growth in all the ways.

References

Multinational financial management by Alan C. Shapiro.

International Financial Management by Jeff Madura, Mc Graw Hill.

Financial management, institute book of ICAI.

International financial management by Cheol Eun, Mcgraw-Hill.

Effective use of financial resources by ozgur pehlivan