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B.Com Honours | Semester VI | Calicut University

FINANCIAL MANAGEMENT

Course Code: COM6EJ302 • Module 1 Notes

Module I: Nature & Scope of Financial Management

Covers core objectives (Profit vs Wealth Maximization), corporate financial goals, Principal-Agent problem, finance organization structure (Treasurer vs Controller), and evolving role of modern CFOs.

Unit 1.1: Nature & Scope of Financial Management & Objectives

Financial Management: Planning, organizing, directing, & controlling corporate financial resources. Dual Objectives: Profit Maximization (short-term, ignores risk & TVM) vs Wealth Maximization (long-term, considers risk & TVM).

Unit 1.2: Primary Objective of Corporate Management

Wealth Maximization Principle: Maximizing Net Present Value (NPV) of corporate investments $implies$ maximizing market value of equity shares ($V_0 = sum ⬆rac{ ext{CF}_t}{(1+k)^t}$).

Unit 1.3: Principal-Agent Problem & Corporate Governance

Agency Conflict: Divergence of interests between shareholders (principals) and corporate executives (agents). Mitigation: ESOPs, performance-linked bonuses, independent board supervision.

Unit 1.4: Organization of Finance Function

Corporate Hierarchy: Chief Financial Officer (CFO) supervises:
1. **Treasurer:** Cash management, banking relations, credit control, capital structure.
2. **Controller:** Financial accounting, cost control, auditing, taxation compliance.

Unit 1.5: Emerging Role of Modern Finance Managers

Strategic Shift: Transition from traditional record-keeping to strategic value creation, ESG risk management, capital allocation, & AI-driven financial analytics.

Practical Case Framework 1 (Profit Maximization vs Wealth Maximization Matrix): Compare evaluation criteria, time value consideration, risk handling, and decision metric.

Financial Objectives Comparison Table:

Evaluation Dimension	Profit Maximization Objective	Wealth Maximization Objective
Primary Focus	Short-term accounting net profit (EPS)	Long-term market value of equity shares
Time Value of Money	Ignored (Treats cash today = cash tomorrow)	Fully considered via Discounted Cash Flows
Risk & Uncertainty	Ignored (Focuses only on magnitude of profit)	Incorporated via discount rate adjustments

Practical Case Framework 2 (Treasurer vs Controller Functional Responsibilities Matrix): Compare reporting head, core functional focus, key operational activities, and risk orientation.

Treasurer vs Controller Functions Table:

Finance Executive	Core Functional Responsibility	Key Operational Activities
Treasurer (External Finance)	Fund raising & Liquidity Management	Banking, Investor relations, Forex, Credit
Controller (Internal Accounting)	Financial Control & Statutory Reporting	General ledger, Costing, Tax filing, Audit