

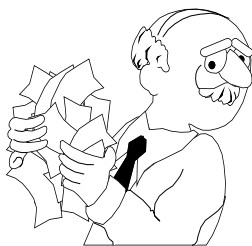
Although account and finance do not involve the same aspects, they are closely related. To have a good financial management, many accounting information are required such as financial statement and financial ratio analysis.

1.2 Financial Management

Financial Management refers to how we **manage financial activities to maximize shareholders' wealth**. It is concerned with the acquisition, financing and management of assets with some overall goals in mind. A good financial planning and management will increase the value of a firm and shareholders' wealth.

The main objective of the Firm / Goal of the Corporation

The most important goal of most corporations is:



Maximising Shareholder wealth

Why don't we just maximize profit? It is the same with maximizing shareholders wealth?
The answer is both are not the same.

Profit Maximisation vs Wealth Maximisation

Profit maximisation

- Short term in nature
- Profit maximisation, major emphasises is on profit.
- mostly concerned about short term benefits.
- A short term horizon can fulfill objective of earning profit but may not help in creating wealth.

Shareholder's Wealth maximisation - maximising the value of the firm through maximising the price of the firm's common stock.

- Long term in nature
- concentrate on various other aspects like increasing sales, developing goodwill, customer service, corporate responsibility for the purpose of capturing more market share which will take care of profitability.
- priority to value creation