Financial management is the process of planning, acquiring, and managing the financial resources of a firm to achieve its goals and objectives. It is primarily concerned with three key decisions: Investing Decision (Capital Budgeting): This decision involves determining what assets the firm should acquire or invest in. Managers must decide how to allocate the firm's scarce resources among long-term projects and assets (e.g., new machinery, a new factory, research and development) that are expected to generate cash flows over many years. The goal is to invest in projects that will increase the value of the firm. Financing Decision (Capital Structure): This decision concerns the mix of debt and equity used to finance the firm's investments. Managers must decide on the optimal capital structure—what proportion of funds should be raised from borrowing (debt) versus selling ownership shares (equity). The choice involves a trade-off between the risk of bankruptcy (from too much debt) and the potential for higher returns for owners (from using leverage). Asset Management Decision (Working Capital Management): This decision involves the efficient management of the firm's short-term assets and liabilities to ensure smooth day-to-day operations. It includes managing cash, inventory, accounts receivable, and accounts payable. The goal is to ensure the company has sufficient liquidity to meet its short-term obligations while avoiding unnecessary investments in non-productive or low-return assets.

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