Tradition and Modern Views of Finance

1. **Traditional View of Finance:**

The traditional approach of finance was prevalent before the 1950s. It focused mainly on the procurement of funds needed by a business and dealt with financial problems during the company's formation or occasional expansion.

Main Features:

- Concerned mainly with arranging funds from external sources.
- Focused on raising capital, issuing of shares, debentures, and loans.
- Limited to short-term financial problems.
- Ignored the problems of efficient utilization of funds.
- Main sources considered: Equity, Debt, and Retained Earnings.

Limitations:

- Narrow in scope (only focuses on financing).
- Does not include investment decisions or dividend policies.
- Ignores day-to-day financial management.

2. **Modern View of Finance:**

The modern approach developed after the 1950s. It focuses not only on acquiring funds but also on their effective utilization, investment, and profit maximization for shareholders.

Main Features:

- Broader in scope — includes financial planning, control, and management.
- Concerned with investment, financing, and dividend decisions.
- Focuses on maximizing the value of the firm.

- Considers risk and return trade-off.
- Involves capital budgeting, working capital management, and financial forecasting.

Key Objectives:

- Wealth maximization rather than just profit maximization.
- Efficient allocation and utilization of funds.
- Maintaining liquidity, profitability, and safety.