

# Unit 23: Financial Management

<b>Unit code</b>	<b>D/618/5073</b>
<b>Unit level</b>	<b>5</b>
<b>Credit value</b>	<b>15</b>

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## Introduction

Financial management means planning, organising, directing and controlling the financial activities of an organisation and applying general management principles to financial resources. Financial departments are responsible for calculating capital required, investing capital, allocating profits and managing the finance of the organisation. It is an important business function that enables organisations to increase their value and improve profitability.

The overall aim of this unit is to introduce students to core financial management principles and strategies. Students will consider the significance of the financial management function in an organisation as it seeks to maximise shareholder value, manage risk and achieve business objectives in complex operating environments. Students will be introduced to alternative sources of internal and external business finance and gain confidence in recommending strategies for managing working capital. A range of investment appraisal techniques will be assessed in order to support long-term decision making and best use of organisational capital.

On successful completion of this unit, students will be in a position to contribute effectively to the financial management function of an organisation. They will also develop fundamental knowledge of and skills in financial management to progress to higher-level study and employment in financial management, investment banking and financial analysis.

## **Learning Outcomes**

By the end of this unit a student will be able to:

- LO1 Evaluate the role and purpose of the financial management function
- LO2 Determine alternative sources of business finance including contemporary methods for different business situations
- LO3 Evaluate approaches to working capital management within an organisation
- LO4 Recommend alternative investment appraisal techniques to inform decision making.

## Essential Content

### LO1 Evaluate the role and purpose of the financial management function

*The financial management function in the organisation:*

Relationship between finance, financial management and financial accounting.

Careers and job opportunities within financial management, e.g. Finance Officer, Management Accountant, Financial Planning Analyst.

Nature and purpose of financial management in complex business operating environments. Integrating financial management into the wider context of the organisation's mission and objectives.

Key legal and ethical constraints, implications and opportunities.

Financial management systems and the benefits and risks of deploying new technologies.

*Role and purpose of financial management:*

Procurement, allocation and control of financial resources of an organisation.

Evaluating and managing project and organisational risk.

Minimising and detecting fraud.

Meeting stakeholders' needs and the impact on corporate objectives.

Setting objectives to ensure:

- regular supply of funds
- ensure adequate returns to shareholders
- optimisation of assets and resources
- informing organisational decision making
- risk vs return optimisation
- balance debt vs equity finance.

Functions of financial management, including estimation of short- and long-term capital requirements, providing data/intelligence to support organisational decision making, making and communicating recommendations on appropriate sources of finance, investment of funds, managing cash, financial control and monitoring.

## LO2 **Determine alternative sources of business finance including contemporary methods for different business situations**

### *Internal sources of finance:*

Different types of short- and longer-term internal sources for SMEs and larger organisations, including working capital management, asset sales, retained profits/earnings.

The advantages and disadvantages and risk profiles.

Opportunity cost of capital, including internal versus external sources and matching appropriate funding source to investment and organisations need.

Estimating the cost of capital and capital structure theories.

### *External sources of finance:*

Different types of short- and longer-term external sources for SMEs and larger organisations.

Overdrafts, short-term loans, trade credit, lease finance, hire purchase and longer-term sources including equity, debt and venture capital.

The advantages and disadvantages of fundamental debt vs equity decision for incorporated organisations.

Different ways of raising equity finance, including rights issues, placing, public offers and stock exchange listing.

Comparison to debt finance, e.g. debentures, loans, convertible debt.

Dividend payments on equity versus interest payments on debt.

Funding appropriate for SMEs versus large organisations.

### *Contemporary methods:*

Islamic finance, its concept, differences and financial instruments available.

The internet as a means of raising short- and long-term capital, e.g. peer-to-peer lending, crowdfunding and sale and leaseback.

Venture capital and franchising.

### **LO3 Evaluate approaches to working capital management within an organisation**

#### *Working capital:*

The nature and importance of working capital as a short-term source of finance.

Elements of working capital, e.g. inventories, cash, debtors, creditors, bank positions and the working capital cycle.

Difference between liquidity and profitability, and consequences and options for illiquid financial positions.

Measuring the working capital position, including current and quick ratios, inventory turnover, debtors' collection and creditors' payable ratios.

#### *Working capital management and techniques:*

The central role of working capital in financial management.

Managing the accounts payable and accounts receivable functions.

Techniques for managing inventory, including just in time, economic order quantity, ABC analysis, first-in-first out (FIFO) and inventory cycle counting.

Dealing with accounts receivable/payable, including managing debtors and creditors, early payment discounts, invoice discounting and factoring services.

Inventory management systems, e.g. Oracle NetSuite, Zoho and QuickBooks.

### **LO4 Recommend alternative investment appraisal techniques to inform decision making**

#### *Investment appraisal:*

Investment decision and opportunity cost.

Factors influencing organisational investment decisions, return on investment (ROI), risk, time, cost of capital, wider economic considerations.

*Investment appraisal techniques to inform decisions:*

Identify, calculate and evaluate investment/project returns to inform decision making using a range of techniques:

Simple non-discounted cash flow (DCF) techniques: accounting rate of return, payback.

DCF methods including net present value (NPV), discounted payback, internal rate of return (IRR).

Merits and disadvantages of non-DCF vs DCF techniques.

Inflation and taxation in DCF, adjusting for risk and uncertainty in investment appraisal and evaluating specific investment decisions.

## Learning Outcomes and Assessment Criteria

Pass	Merit	Distinction
<b>LO1</b> Evaluate the role and purpose of the financial management function		<b>D1</b> Make justified recommendations for effective financial management to achieve long-term organisational success in complex and risk-averse environments.
<b>P1</b> Assess key principles of financial management required for organisations to operate effectively and sustainably.  <b>P2</b> Evaluate the role and purpose of the financial management function for a range of different organisations and contexts.	<b>M1</b> Critically evaluate the contribution financial management makes towards an organisation meeting objectives and managing risk.	
<b>LO2</b> Determine alternative sources of business finance including contemporary methods for different business situations		<b>D2</b> Justify the impact of alternative sources of business finance on the operations and long-term success of organisations.
<b>P3</b> Discuss alternative sources of business finance for different business situations in SME and large organisations.	<b>M2</b> Analyse a range of sources of business finance appropriate for meeting different organisations' needs and plans.	
<b>LO3</b> Evaluate approaches to working capital management within an organisation		<b>D3</b> Critically evaluate working capital management approaches and techniques to ensure that organisations operate solvently and successfully in diverse and complex environments.
<b>P4</b> Appraise a range of approaches to managing working capital in an organisation.  <b>P5</b> Evaluate different techniques for measuring the working capital position of an organisation.	<b>M3</b> Compare advantages and disadvantages of alternative approaches and techniques to successfully managing the working capital position of an organisation.	

Pass	Merit	Distinction
<p><b>LO4</b> Recommend alternative investment appraisal techniques to inform decision making.</p>		
<p><b>P6</b> Review factors that influence investment decision making to recommend alternative investment appraisal techniques.</p>	<p><b>M4</b> Recommend a range of DCF and non-DCF techniques to support long-term decisions on capital expenditure.</p>	
<p><b>P7</b> Calculate investment viability using different investment appraisal techniques to inform long-term investment decision making.</p>		

## Recommended Resources

### Textbooks

AERTS, W. and WALTON, P. (2017) *Global Financial Accounting and Reporting: Principles and Analysis*. 4th Ed. Cengage Learning EMEA.

ATRILL, P. and McLANEY (2018) *Accounting and Finance for Non-Specialists*. 11th Ed. Prentice Hall.

ATRILL, P. (2017) *Financial Management for Decision Makers*. 8th Ed. Harlow: Pearson.

CORNWALL, J. R., VANG, D. O. and HARTMAN, J. M. (2019) *Entrepreneurial Financial Management: An Applied Approach*. 5th Ed. London: M.E. Sharpe.

WEETMAN, P. (2019) *Financial and Management Accounting: An Introduction*. 8th Ed. Harlow: Pearson.

### Websites

<a href="http://www.accaglobal.com">www.accaglobal.com</a>	Association of Chartered Certified Accountants (General reference)
<a href="http://www.accountingcoach.com">www.accountingcoach.com</a>	Accounting Coach Online free courses (General reference)
<a href="http://www.cimaglobal.com">www.cimaglobal.com</a>	Chartered Institute of Management Accountants Tutor Resource Hub
<a href="http://www.icaew.com">www.icaew.com</a>	Institute of Chartered Accountants in England and Wales Resources, Financial Reporting (General reference)

### Links

This unit links to the following related units:

*Unit 5: Accounting Principles*

*Unit 10: Recording Financial Transactions*

*Unit 21: Financial Reporting*

*Unit 23: Financial Management*