IFA DIRECT.

Financial management

Unit level 5
Unit code T/650/9646
GLH 120
Credit value 30
Unit grading structure
Pass-Merit-Distinction

Unit aims

The unit aim is to develop the financial management skills for those who manage or seek to manage the performance, risk and financial decision-making needs of small and medium enterprises (SMEs), and small and medium practices (SMPs).

Learning outcomes The learner:	Assessment criteria The learner can: Pass	Merit	Distinction
1. Understands the long-term capital requirements of organisations.	1. Determine the long-term capital requirements of organisations. 2. Analyse different sources of long-term finances and their impacts on organisations. 3. Analyse factors affecting the granting of credit to organisations. 4. Apply the capital asset pricing model (CAPM) and know how to determine the weighted average cost of capital (WACC). 5. Use the dividend valuation model to determine share price and cost of capital	.	1. Evaluate the usefulness of the capital asset pricing model.
2. Can apply different investment appraisal techniques.	1. Apply investment appraisal techniques for different investment decisions. 2. Evaluate investment decisions and make justified recommendations	1. Discuss the benefits and limitations of different investment appraisal methods	
3. Understands the management of long-term finance.	1. Analyse the financial risks faced by organisations. 2. Explain the use of hedging instruments to manage currency exchange rate risks. 3. Analyse the management of gearing in organisations	1. Make recommendations on the management of debt finance and equity.	

Indicative content

1. Understands the long term capital requirements of organisations

- Capital requirements of organisations – definition of capital (funds required to achieve goals); how to determine capital requirements e.g. operational requirements, legal requirements for some companies (regulatory capital).
- Sources of long term finance – debt (bank loans, bonds, leasing) and equity (shares/ ownership), retained profits.
- Impact of different sources of finance e.g. ownership structure, impact on credit rating, assets as security, interest payments, capital repayments, dividends etc.
- Credit ratings and factors affecting the granting of credit e.g. business size, how long business has been trading, risk related to industry, credit history, debt to equity ratios.
- Financial gearing and the impact of leverage e.g. high gearing makes organisation more susceptible to economic downturn.
- Dividend valuation model (DVM) – calculation and use to calculate value of stock (sum of future dividend payments in present-day value).
- Capital asset pricing model (CAPM) (expected returns given cost of capital and risk of assets using rate of return, beta stock value and risk free rate); and weighted average cost of capital (WACC) (using cost of debt and cost of equity calculated using CAPM)
- Limitations of CAPM e.g. agreeing the rate of return, assumption of positive returns, use of historical data, assessment of risk, assumption that borrowing unlimited at risk free rate.

2. Can apply different investment appraisal techniques

- Capital budgeting – process of evaluating potential major projects or investments
- The investment appraisal process – looking at financial aspects of investment and the change that will occur using tangible costs and benefits
- Identification of relevant cash flows i.e. the future, incremental (extra revenue that will be generated), only costs and revenues that give rise to cash flow are include (e.g. not depreciation)
- Methods of investment appraisal:
  - Accounting rate of return (ARR)
  - Payback period
  - Net present value
  - Discounted payback period
  - Internal rate of return (IRR)
- Advantages and disadvantages of investment appraisal methods e.g. ease/difficulty of calculation, consideration of all cash flows, time value of money, assumptions and averaging, no account of non-financial factors.

3. Understands the management of financial risks

- Different types of risk: transaction and economics risks e.g. market risk, operational risk, liquidity risk, credit risk, foreign investment risk, equity risk, currency risk.
- Use of hedging/forward exchange contracts: manages unpredictability of exchange rates by limiting exposure and loss
- Use of debt financing and implications for organisations e.g. changes to gearing ratios, effects on credit rating, costs of finance, risks of interest rises and economic downturn.

Suggested resources

Textbooks

Atrill, P., (2019) Financial Management for Decision Makers (9th ed.), Harlow, Pearson

Bamber, M. and Parry, S. (2021) Accounting and Finance for Managers: A Business Decision Making Approach, London: KoganPage

Websites

Corporate Finance Institute, https://corporatefinanceinstitute.com/resources
Investopedia Capital Budgeting, https://www.investopedia.com/terms/c/capitalbudgeting.asp

Unit assessment

The assessment for each unit is based on the achievement of the learning outcomes at the standards set by the assessment criteria for that unit. The learner can achieve a Pass, Merit, Distinction or Fail for each unit based on the quality of the work submitted and the assessor's judgements made against the criteria provided.

The assessment is completed through the submission of internally assessed learner work which is subject to external moderation or verification.

Institute of Financial Accountants
CS111, Clerkenwell Workshops,
27-31 Clerkenwell Close, Farringdon,
London EC1R 0AT