Financial Management

The Financial Management (FM) module is designed to provide students with the financial management tools necessary to support decision making. The focus is on understanding the role of financial management within an organisational context and developing a broad range of financial skills. These skills are of particular relevance to the roles of enabler and innovator and business partner.

In each of the topics in this module, the focus is on the application of numerical financial management techniques, but students are also expected to interpret their results and discuss non-financial issues that might impact on a decision.

Students are firstly introduced to the wider issues of financial management, including the economic and regulatory environment, before learning how to use the main treasury management techniques. The largest component of the syllabus covers investment appraisal and risk, and students focus on the application of a range of numerical techniques to capital investment projects. The topic of pricing requires the use of numerical skills in the application of various approaches to pricing of goods and services, and also to the specific issues involved in pricing of items that are transferred between divisions of an organisation or companies within a group. The final topic within the syllabus deals with specific techniques that are applied in the context of managing individual elements of an organisation's working capital. Throughout the FM syllabus, risk management is an integral aspect.

FM involves the use of numerical techniques, and it is therefore useful for students to have completed the Management Accounting module and be familiar with costing approaches, cost behaviour, etc. A number of techniques that are applied primarily in a business context in FM are developed and adapted as necessary for public services application in the Strategic Public Finance module.

Syllabus topics

A	Financial management, financial institutions and sources of finance	20%
B	Treasury management	20%
C	Investment appraisal and risk management	35%
D	Pricing	10%
E	Working capital management	15%

Other information, including assessment

Prior knowledge: Financial Accounting (ethical principles)

Standards: n/a

Validity: Up to and including September 2023 examinations

Assessment: A 150 minute exam with 75 marks available consisting of: 30 multiple choice questions (of 1 mark each); 3 short form questions of 5 marks each and 3 longer scenario questions of 10 markseach. The pass mark is 50%.

Overall Aim	Learning outcome	Content
A Explain the role of financial management and the economic environment in which organisations operate; describe the financial institutions and markets which facilitate financing and evaluate the relative merits of sources of finance available (20%)	A1 Discuss the role of financial management within an organisation and the factors influencing the development of a financial strategy	(i) Meaning of financial management and role of financial strategy (ii) Influences on financial strategy including economic goals of stakeholders and shareholder wealth (iii) Interaction between short-term goals and measures and long-term financial strategy
	A2 Explain the economic environment in which organisations operate	(i) Macroeconomic issues - economic theories; national income; inflation; unemployment; trade deficits and surpluses; the trade cycle; (ii) Macroeconomic policy targets and the impact of fiscal, monetary, interest rate and exchange rate policy on business (iii) Sources of market failure and government intervention, such as competition policies, green policies, and financial sector regulation)
	A3 Explain the principles of financial funding and structure and evaluate the relative merits of different funding sources including calculating and interpreting the impact on relevant business performance indicators	(i) An organisation's financial structure (ii) Short versus long term finance (iii) Sources of long-term finance – equity; debt; lease finance; venture capital (iv) Raising long-term finance - rights issues; placing; public offer; listing; debenture issues (v) Equity sources and dividend policy (vi) Sources of short term finance and processes for securing them – overdraft; loans; trade credit; leasing (vii) Interest rate calculations such as simple and

		compound interest (viii) Internal sources of finance and the dividend decision (ix) Introduction to other approaches to raising finance, including Islamic finance, venture capital and crowdfunding (x) The impact of financing on the financial performance indicators for profitability, liquidity and risk
	A4 Describe the role and function of the main financial institutions and markets that facilitate financing	(i) Money and capital markets (ii) Efficient Market Hypothesis (iii) Financial intermediaries, including investment exchanges and commercial banks (iv) Foreign exchange markets
	A5 Describe the investment regulatory environment	(i) UK regulation (ii) The role of the Bank of England (iii) Application of ethical principles to investment decisions
B Explain the role of treasury management and apply the tools and techniques used to manage financial risk (20%)	B1 Explain the role of treasury management	(i) The main activities of the treasury function (ii) The factors leading to short, medium and long term liquidity surpluses and deficits (iii) Outsourcing the treasury function and the use of shared services (iv) Treasury management instruments and techniques
	B2 Discuss and assess the financial risk factors affecting organisations	(i) Types of financial risk - currency risk; interest rate risk; liquidity risk; credit risk; refinancing risk; legal and regulatory risk; fraud and corruption; market risk (ii) Mitigation of risk including the four T's

		(iii) Impact of market volatility (iv) Interpretation of yield curves (v) The role of insurance in risk management (vi) Credit default swaps
	B3 Discuss the use of financial instruments to hedge against interest rate risk and calculate, for a given hedging requirement, the most appropriate hedging strategy	(i) Interest rate forwards (ii) Interest rate swaps (iii) Options - floors and caps
	B4 Discuss the use of financial instruments to hedge against FOREX risk and calculate, for a given hedging requirement, the most appropriate hedging strategy	(i) Forward markets and use of forward contracts and synthetic forwards (money market hedges) (ii) Synthetic agreement for forward exchange (SAFE) (iii) Exchange-traded currency futures contracts (iv) Currency swaps (v) FOREX swaps (vi) Currency options
C Apply financial investment appraisal techniques to evaluate capital projects and assess risk (35%)	C1 Explain the process of appraising the viability of capital projects	(i) Revenue versus capital expenditure (ii) Identification of costs and benefits (iii) Taking account of risk (iv) Non-financial factors
	C2 Apply investment appraisal techniques to capital expenditure decisions and discuss their relative usefulness	(i) Discounting (ii) Net Present Value (iii) Payback (iv) Discounted payback (v) Accounting Rate of Return (vi) Internal Rate of Return

	C3 Prepare an optimal investment plan taking into account additional financial constraints and discuss its usefulness	(i) Mutual exclusivity of projects - the asset replacement cycle and annual equivalent cost analysis (ii) Inflation (iii) Taxation (iv) Capital rationing – numerical analysis for single-period capital rationing; discussion of issues for multi-period capital rationing (v) Lease versus buy decisions
	C4 Calculate and interpret the cost of capital	(i) The relative risk return relationship of different sources of finance (ii) The cost of equity including the dividend valuation model and the capital asset pricing model (iii) The cost of debt and other capital instruments (iv) The overall weighted average cost of capital (v) Risk adjusted discount rates (vi) Capital structure theory (vii) Practical considerations affecting the financing decision
	C5 Apply appropriate techniques to measure the effect of risk in capital expenditure and other decision making	(i) Risk and uncertainty (ii) Attitudes to risk (iii) Models for incorporating risk – maximax; maximin; minimax regret; expected monetary value (iv) Decision trees (v) Sensitivity analysis calculations and optimism bias (vi) Simulation (vii) Adjusted payback

D Calculate and discuss external and internal prices taking account of relevant economic and organisational factors (10%)	D1 Calculate external prices and evaluate the suitability of a given pricing strategy taking account of internal and external factors	(i) Relevant costs for pricing decisions (ii) Cost-plus pricing (iii) Market-based pricing - market penetration; price skimming; psychological pricing (iv) Incremental pricing; marginal cost pricing (v) Price elasticity of demand (vi) Optimal revenue and optimal profit pricing models (vii) Differential pricing (viii) Target pricing (ix) Price instability and government intervention (x) Pricing issues in relation to service-level agreements
	D2 Calculate transfer prices, discuss the issues relating to transfer prices and assess the impact of transfer pricing on divisional performance and investment decisions	(i) Appraising divisional performance – return on investment; residual income (ii) Principles of transfer pricing (iii) Methods used to set a transfer price (iv) The impact of transfer prices on divisional decision making (v) Transfer pricing issues in multi-national organisations
E Explain and apply and effective working capital management techniques (15%)	E1 Explain the scope of working capital management	(i) Role of working capital (ii) Handling and transmitting cash (iii) Actions to improve accounts receivables position – external collection agencies; factoring (iv) Payment of suppliers – efficiency; ethical policies
	E2 Apply techniques to manage working capital	(i) Management of a working capital cycle (ii) Working capital ratios, including calculation of the

	length of the cash operating cycle and interpretation of results
	(iii) Evaluation of a factoring decision
	(iv) Impact of late payment legislation e.g. Late Payment of Commercial Debts (Interest) Act 1998
	(v) Offering and accepting early payment discounts
	(vi) Inventory management models: economic order quantities (including evaluating discounts) and re-order levels
	(vii) Cash flow forecasting
	(viii) Cash management models: Baumol and Miller-Orr