



Effective Financial Management

Unit Type: Mandatory

Level: 5

Credits: 20

GLH: 70

Assessment Method: Examination

The focus of Effective Financial Management is the management of financial resources in a business. It addresses the applied techniques that managers need in order to take financial decisions in a business. It also addresses the critical and theoretical knowledge and skills that managers need to take financial management responsibilities.

The aim of Effective Financial Management is to enable you to:

- Assess the objectives of financial management
- Evaluate organisational activities, processes and performance
- Understand the impact of the financial risk on financial management in a business
- Examine and explain how businesses can finance their activities
- Evaluate options for the financing of a business
- Apply techniques to make appropriate investment decisions



What You'll Learn

The table below shows the learning outcomes of this unit (what you will be able to do or what you will know), along with the assessment criteria (what you will be able to do to demonstrate achievement of the learning outcome).

Learning Outcomes <i>The learner will:</i>	Assessment Criteria <i>The learner can:</i>
1. Assess the objectives of financial management and the role of different stakeholders in the financial strategy that is used by a business. (Weighting 20%)	1.1 Assess the objectives of financial management in order to decide how best to formulate a financial management strategy for a business 1.2 Analyse the roles played by different stakeholders in order to select a financial management strategy that best meets the needs of stakeholders 1.3 Discuss the ethical considerations that need to be considered in financial management in order to ensure that financial practices reflect ethical requirements and standards
2. Evaluate organisational activities, processes and performance using projected financial statements and measures of business performance. (Weighting 30%)	2.1 Analyse business objectives, organisational activities, organisational activities and processes 2.2 Evaluate business performance and financial management processes using financial statements and calculation of key financial ratios 2.3 Apply alternative techniques in order to evaluate the financial management of key organisational activities and processes
3. Evaluate financial risk using suitable techniques in order to apply approaches that reduce exposure to financial risks. (Weighting 20%)	3.1 Assess the importance of financial risk in order to select appropriate financial management techniques 3.2 Evaluate financial risk using suitable techniques in order to ensure financial management decisions take account of financial risks 3.3 Apply approaches to financial risk management that reduce exposure to financial risks
4. Evaluate options for the financing of	4.1 Assess the role of capital markets and the efficient markets hypothesis in order to understand the effects of



<p>business activities, including the characteristics of different sources of finance and how best to meet the financing needs of the business. (Weighting 20%)</p>	<p>financing decisions on the business</p> <p>4.2 Analyse the role and characteristics of different sources of finance in order to identify suitable sources of finance that best meet the financing needs of a business</p> <p>4.3 Evaluate sources of finance in order to decide how best to meet the financing needs of the business</p>
<p>5. Evaluate investment opportunities in order to ensure that investment decisions reflect the needs of the business and its financial management strategy. (Weighting 10%)</p>	<p>5.1 Select and justify investment appraisal techniques in order to ensure that investment decisions reflect the financial management strategy of the business</p> <p>5.2 Compare investment appraisal techniques for a range of typical investment scenarios in order to best meet the needs of the business</p> <p>5.3 Analyse relevant non-financial factors, including the limitations of investment appraisal techniques, in order to ensure the investment decision making takes account of the broader strategic needs of the business</p>

Capabilities

Alongside academic learning and development, ABE's qualifications have been designed to develop your practical skills and capabilities. These capabilities are highlighted as certain values, knowledge, skills and behaviours that will help you in your professional development.

Below is an overview of the behaviours, skills and attitudes that you will develop through this unit include:

Element of Learning	Key Capabilities Developed
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<p>Element 1 - The objectives of financial management</p>	<p>Ability to identify and understand the objectives of financial management</p> <p>Awareness of different stakeholders in the financial strategy that is used by a business and their role</p> <p>Awareness the role of the finance function and of financial management within the wider business</p>
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Appreciation of the agency problem and how it might be managed

Analytical skills; Commercial awareness; Critical reflection; Ethical appreciation; financial management, stakeholder management

**Element 2 -
Organisational
activities,
processes and
performance**

Ability to discuss business objectives, organisational activities, organisational processes and performance measures and the link between them

Ability to assess business performance using financial statements and key accounting ratios

Ability to prepare projected financial statements for a business and interpret their significance for decision making purposes

Ability to recommend possible measures of business performance and wealth maximisation

Analysis; Planning and implementing; Using reporting skills; Numeracy; Evaluation; preparation of accounts

**Element 3 - Risk
and financial
management**

Ability to use suitable techniques to evaluate financial risks and their impact on organisational activities and decision making

Awareness of how different types of risk influence the pursuit of wealth maximisation

Ability to calculate financial gearing for a business and awareness its significance

Ability to evaluate different financial structures and assess their implications for the business

Critical thinking; Problem solving; Numeracy; Evaluation; Ethical appreciation; financial management, decision-making

**Element 4 -
Sources of
finance**

Knowledge of the main sources of internal and external sources of finance, including their key features

Ability to discuss the factors to be taken into account when choosing an appropriate source of finance

Ability to recommend an appropriate source of finance

Ability to calculate the weighted average cost of capital for a business and assess its usefulness in making investment decisions

Awareness of the methods by which share capital can be issued

Numeracy; Analysis of models; Creativity; financial management;



decision-making, commercial awareness

**Element 5 -
Investment
appraisal**

Appreciation of the nature and importance of investment
decision making

Knowledge of the key stages in investment decision making

Ability to apply techniques to evaluate investment opportunities,
taking account of risk and non-financial factors

Analytical; Problem solving; Analysis of models; Numeracy;

Adaptability; decision-making, financial management

Localisation

It is very important when studying for your ABE qualification that you consider your local business environment and try to apply what you are learning to relevant scenarios in your local business context. Doing this will help you to put your learning into practice and use it in your professional day-to-day activities.

You should take into account the following when preparing for your assessment:

- Local legal and taxation requirements
- Local corporate governance requirements
- Local cultural environment



Indicative Content

1. Assess the objectives of financial management and the role of different stakeholders in the financial strategy that is used by a business (Weighting 20%)

1.1 Assess the objectives of financial management in order to decide how best to formulate a financial management strategy for a business

- The role of the financial function and of the financial manager
- The relationship between financial management and modern economic theory, including time and risk

1.2 Analyse the roles played by different stakeholders in order to select a financial management strategy that best meets the needs of stakeholders

- The stakeholder approach and the need to serve the groups that are affected by the operations of the business
- The identification and treatment of different stakeholder groups
- The techniques that can be used to analyse the roles that are played by different stakeholders
- The relationship between the needs of stakeholders and the development of a financial management strategy
- The effects of multiple business objectives and how these create problems of multiple accountabilities

1.3 Discuss the ethical considerations that need to be considered in financial management in order to ensure that financial practices reflect ethical requirements and standards

- The key ethical considerations that need to be considered in financial management and in financial practices
- Ethical codes and practice and policies in financial management, including corporate governance codes
- Shareholder involvement and the provision of incentives for directors and managers
- The agency problem that may exist between shareholders and directors



2. Evaluate organisational activities, processes and performance using projected financial statements and measures of business performance (Weighting 30%)

2.1 Analyse business objectives, organisational activities, organisational activities and processes

- The development of business objectives and the planning of organisational activities and processes
- The role of projected financial statements and key financial ratios in organisational planning

2.2 Evaluate business performance and financial management processes using financial statements and calculation of key financial ratios

- The preparation of projected financial statements and their role in the evaluation of the impact of plans on financial performance and position
- The checking of projected financial statements for reliability
- The use of projected financial statements and key financial ratios and their role in the critical evaluation of organisational activities and processes
- The analysis of financing gaps based on projected financial statements and key financial ratios



2.3 Apply alternative techniques in order to evaluate the financial management of key organisational activities and processes

- The application of horizontal and vertical analysis in the evaluation of financial management activities and processes
- The application of the per-cent-of-sales method and its use in financial planning
- The preparation of short-term and long-term cash projections using projected financial

3. Evaluate financial risk using suitable techniques in order to apply approaches that reduce exposure to financial risks (Weighting 20%)

3.1 Assess the importance of financial risk in order to select appropriate financial management techniques

- The nature of risk and its importance in financial management
- The different types of risk and their impact on organisation activities and decision making
- The impact of different types of risk on financial management processes and activities

3.2 Evaluate financial risk using suitable techniques in order to ensure financial management decisions take account of financial risks

- The calculation of operational gearing
- The calculation of financial gearing
- The significance of financial gearing and its importance to organisational activities, processes and performance

3.3 Apply approaches to financial risk management that reduce exposure to financial risks

- The evaluation of financial risk using suitable techniques and approaches to financial risk management, such as sensitivity analysis, scenario analysis, simulations and standard deviation, to reduce exposure to financial risks
- The evaluation of different financial structures and their implications for the business



4. Evaluate options for the financing of business activities, including the characteristics of different sources of finance and how best to meet the financing needs of the business (Weighting 20%)

4.1 Assess the role of capital markets and the efficient markets hypothesis in order to understand the effects of financing decisions on the business

- The calculation of the weighted average cost of capital for a business and its usefulness in making investment decisions
- The nature, role and purpose of the equity and debt markets
- The methods by which share capital can be issued
- The nature and implications of stock market efficiency
- The needs of smaller businesses and the methods by which smaller business might raise share capital

4.2 Analyse the role and characteristics of different sources of finance in order to identify suitable sources of finance that best meet the financing needs of a business

- The distinctions between long-term and short-term sources of finance and between internal and external sources of finance
- The types and characteristics of long-term sources of finance
- The types and characteristics of short-term sources of finance
- The types and characteristics of internal sources of finance
- The types and characteristics of external sources of finance

4.3 Evaluate sources of finance in order to decide how best to meet the financing needs of the business

- The matching principle and finance and its importance in the selection between long-term and short-term sources of finance
- Other factors that need to be taken into account in the selection of a sources of finance
- The advantages and disadvantages of different types of finance



5. Evaluate investment opportunities in order to ensure that investment decisions reflect the needs of the business and its financial management strategy (Weighting 10%)

5.1 Justify investment appraisal techniques in order to ensure that investment decisions reflect the financial management strategy of the business

- The nature and importance of investment decision making
- The nature and characteristics of different investment appraisal techniques
- The key stages in investment decision making
- The use of investment appraisal techniques in practice
- The advantages and disadvantages of different investment appraisal techniques
- The selection of an investment appraisal technique that best meets the needs of the business

5.2 Compare investment appraisal techniques for a range of typical investment scenarios in order to best meet the needs of the business

- The calculation of payback period

5.3 Analyse relevant non-financial factors, including the limitations of investment appraisal techniques, in order to ensure the investment decision making takes account of the broader strategic needs of the business

- Investment appraisal techniques and smaller businesses
- Modifications to net present value decision rules where there is capital rationing of there are competing projects with unequal lives
- Non-financial factors and their importance in investment decision making



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ABE's offices are located in New Malden, Greater London, UK.
5th Floor, CI Tower, St. George's Square, New Malden, Surrey KT3 4TE, UK
Tel: +44 (0)20 8329 2930 Fax: +44 (0)20 8329 2945

