

STAGE: PROFESSIONAL 1

Subject Title:

MANAGERIAL FINANCE

Examination Duration: 3 Hours

Aim

The aim of this subject is to ensure that students develop a critical understanding of the nature and scope of financial management. They should be able to assess funding requirements, calculate the cost of the available sources of finance, and advise on the optimum financing structure for an entity. Students should be able to evaluate the role and application of corporate planning and budgetary control theory and techniques. They are also expected to demonstrate excellent written communication skills and the ability to integrate learning of this and other subjects.

Managerial Finance as an Integral Part of the Syllabus

Managerial Finance develops students' knowledge and skills with respect of the financial management of organisations and builds on the Formation 2 Stage Management Accounting syllabus. This subject is an essential underpinning for Strategic Corporate Finance, Strategic Performance Management and Strategy & Leadership at Professional 2 Stage.

| Stage | Subject | Subject | Subject | Subject | Subject | Subject |
|-------|-----------------------------|----------------------------------|------------------------------|---------------------------------|---------------------------------------|-------------------|
| P2 | Strategic Corporate Finance | Strategic Performance Management | Advanced Corporate Reporting | Strategy & Leadership | Audit Practice and Assurance Services | Advanced Taxation |
| P1 | | Managerial Finance | Corporate Reporting | Corporate Laws and Governance | Auditing | |
| F2 | | Management Accounting | Financial Accounting | Information Systems | Taxation | |
| F1 | | | Management in Organisations | Economics and Business Planning | Business Law and Professional Ethics | |

The above table shows the linkages between Managerial Finance and the subjects highlighted. The capabilities developed will be built upon in the study of the subjects highlighted above.

Learning Outcomes

On successful completion of this subject, students should be able to:

- Interpret and critically appraise corporate objectives including, shareholder value, stakeholder value, value creation, investment policy and long and short-term financing.
- Analyse and evaluate the main financial management decisions of a company/organisation including capital budgeting, investment appraisal, working capital management, capital structure and dividend decision.
- Appraise foreign currency risk and recommend appropriate risk management strategies.
- Appraise the relationship between risk and return and demonstrate its application to portfolio theory and the Capital Asset Pricing Model (CAPM).
- Apply, evaluate and compare common business valuation models.
- Evaluate the role of corporate planning and budgetary control as key elements in managerial finance, including the preparation and utilisation of performance measurement statements.
- Prepare and present quantitative and qualitative information for management decision making, integrating analysis, argument, and commentary in a form appropriate to the intended audience.

Syllabus

| 1: FINANCIAL ENVIRONMENT | CL* |
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| Aims and objectives of profit seeking and non-profit seeking organisations. | 2 |
| The inter relationship between financial management, management accounting and financial accounting. | 3 |
| Interests and influence of key stakeholder groups. | 3 |

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| Ethics and corporate governance issues in Managerial Finance. | 2 |
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2: SOURCES OF FINANCE

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| Equity / debt financing and associated risks. | 2 |
| Short, medium and long-term finance. | 2 |
| The nature and importance of internally generated funds. | 2 |
| Determinants of capital structure. | 2 |
| The nature and role of capital markets, - types of share capital including: rights issues, convertibles, warrants, etc. | 2 |
| Sources of government finance, including grants, national aid schemes, tax incentives etc. | 2 |
| Venture capital financing; nature, benefits and risks. | 2 |
| Currency Risk Management <ul style="list-style-type: none"> – Translation Risk – Transaction Risk, including internal hedging methods and forward market, money market and currency option hedges. | 2 |

3: INVESTMENT APPRAISAL

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| Time Value of Money, present values of cash flows, use of Present Value and Annuity Tables. | 3 |
| Identification of relevant cash flows. | 3 |
| Non-financial factors relevant to investment decisions. | 2 |
| Investment appraisal techniques, including: <ul style="list-style-type: none"> ■ Net Present Value ■ Adjusted Present Value ■ Internal Rate of Return | 3 |

3: INVESTMENT APPRAISAL

- Payback.

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| Lease or buy decisions. | 3 |
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| The effects of inflation, taxation and 2 capital rationing on the investment decision. | 2 |
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4: WORKING CAPITAL MANAGEMENT

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| Effective working capital management strategies and corporate survival. | 2 |
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| Cash budgets/cashflow forecasts (linked to syllabus area 7 below). | 3 |
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| The operating cycle. | 2 |
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| Debtor and creditor management techniques including: credit evaluation, terms of credit, settlement discounts, debt collection techniques, factoring and invoice discounting. | 2 |
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| Inventory management techniques, including EOQ and JIT. | 2 |
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| Overtrading - symptoms, causes and remedies. | 2 |
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5: COST OF CAPITAL

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| Cost of equity, dividend growth and Capital Asset Pricing Model (CAPM). irredeemable debt. | 2 |
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| Cost of redeemable and WACC – Calculation, application and interpretation. | 2 |
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| Systematic and unsystematic risk. | 2 |
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| Portfolio diversification. | 2 |
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| Portfolio theory and its application 2 in practical financial management. | 2 |
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| Dividend decisions. | 2 |
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| Calculate and interpret the risk and 2 return of a two asset portfolio. | 2 |
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6: BUSINESS VALUATIONS

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| Methods of valuing a business, including: | 2 |
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- Asset bases.

- Earnings bases.

- Discounted cash flow.

- Dividend yield.

- Dividend growth.

7: BUDGETARY PLANNING AND CONTROL

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| Budgetary planning and control. | 3 |
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| Incremental, zero-based and activity-based approaches to budget formulation. | 3 |
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| Functional budgets, including cash flow (linked to syllabus area 4), projected statements of profit or loss and other comprehensive income, and statements of financial position. | 3 |
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| Behavioural aspects of budgeting. | 3 |
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8: MANAGEMENT ACCOUNTING IN DECISION SUPPORT

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| Variance calculation and analysis including fixed overhead capacity and efficiency variances. | 2 |
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| Modern Management Accounting including; Activity Based Management, Total Quality Management, Balanced Scorecard. | 2 |
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| Target costing. | |
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| Relevant costs in decision making. | |
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Pricing decisions:

- Price / demand relationships.
- Cost-plus pricing.
- Market driven pricing.

Limiting factors (including linear programming - with two decision variables. Application of the graphical and simultaneous equation approaches).

Make or buy decisions.

Qualitative factors relevant to specific decisions:

- Internal
- H.R. / Motivational
- External
- Competitor Activity
- Social and environmental considerations.
- Impact on stakeholder groups including: customers, employees, investors, suppliers and society.

Assessment Strategy

EXAMINATION APPROACH

Some questions may be entirely discursive, while others will be both discursive and computational. Skills examined will include comprehension, detailed application, analysis, evaluation, synthesis, and effective communication skills in relation to the production of reports and memoranda for internal use. Managerial Finance is a core subject, and this is reflected by the limited choice in both sections of the examination paper. Students are expected to integrate and apply learning from this and other syllabi, as appropriate.

Examination Format

The assessment is by an unseen, closed-book examination of 3 hours' duration. The paper is divided into two sections. In Section A students are required to answer 3 questions, question 1 a compulsory 25-mark question, question 2 a compulsory 20-mark question and question 3 a compulsory 15-mark question. Students have a choice of answering Part A or Part B of question 3. In Section B students are required to answer 2 questions from 3. In summary, students are required to answer a total of 5 questions out of 6.

Marks Allocation

Marks

Section A

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| Question 1 | 25 |
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| Question 2 | 20 |
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| Question 3 (Students have a choice, Part A or B must be answered) | 15 |
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Section B

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| Question 4 | 20 |
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| Question 5 (Students have a choice, Part A or B must be answered). | 20 |
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| Total | 100 |
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Learning Resources

CORE TEXTS

Arnold / Corporate Financial Management 5th Edition/ Pearson 2016 / ISBN-13: 978-1292178066

Drury / Management & Cost Accounting 9th ed / (Cengage) / 2015 / ISBN-13: 978-1408093931

MANUALS

Griffith College CPA P1 Managerial Finance Latest edition.

SUPPLEMENTARY TEXTS & JOURNALS

Power, Walsh and O Meara 3rd ed / Financial Management / An Irish Text, Gill & Macmillan / 2009 / ISBN-13: 978-0717145546

Anne Marie Ward 3rd ed / Theory and Practice/ ICAI 2014 / ISBN-13: 978-1908199485

Accountancy Plus. CPA Students' eBulletin. Financial Director. Investment International. Accounting and Business. Accountancy Ireland.

USEFUL WEBSITES (AS OF DATE OF PUBLICATION)

www.cpaireland.ie - CPA Ireland.

www.ise.ie - The Irish Stock Exchange.

www.centralbank.ie/regulation/Pages/home.aspx - Financial Regulator

www.cfo.com -CFO.com

www.ifac.org/ - International Federation of Accountants.

www.ft.com - Financial Times.

www.wsj.com - The Wall Street Journal online.

www.investmentinternational.com Investment International.

www.bloomberg.com/europe - Bloomberg

www.investopedia.com - Investopedia