

ATC

ACCA

PAPER 2.4

FINANCIAL MANAGEMENT AND CONTROL

STUDY SYSTEM

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Introduction

This Study System has been specifically written for The Chartered Association of Certified Accountants Part 2 examination , Paper 2.4 *Financial Management and Control*.

It provides comprehensive coverage of the core syllabus areas and is designed to be used both as a reference text and interactively with the ATC Learning System to provide you with the knowledge, skill and confidence to succeed in your ACCA studies.

SYLLABUS

Aim

To develop knowledge and understanding of financial management methods for analysing the benefits of various sources of finance and capital investment opportunities and of the application of management accounting techniques for business planning and control.

Objectives

On completion of this paper students should be able to:

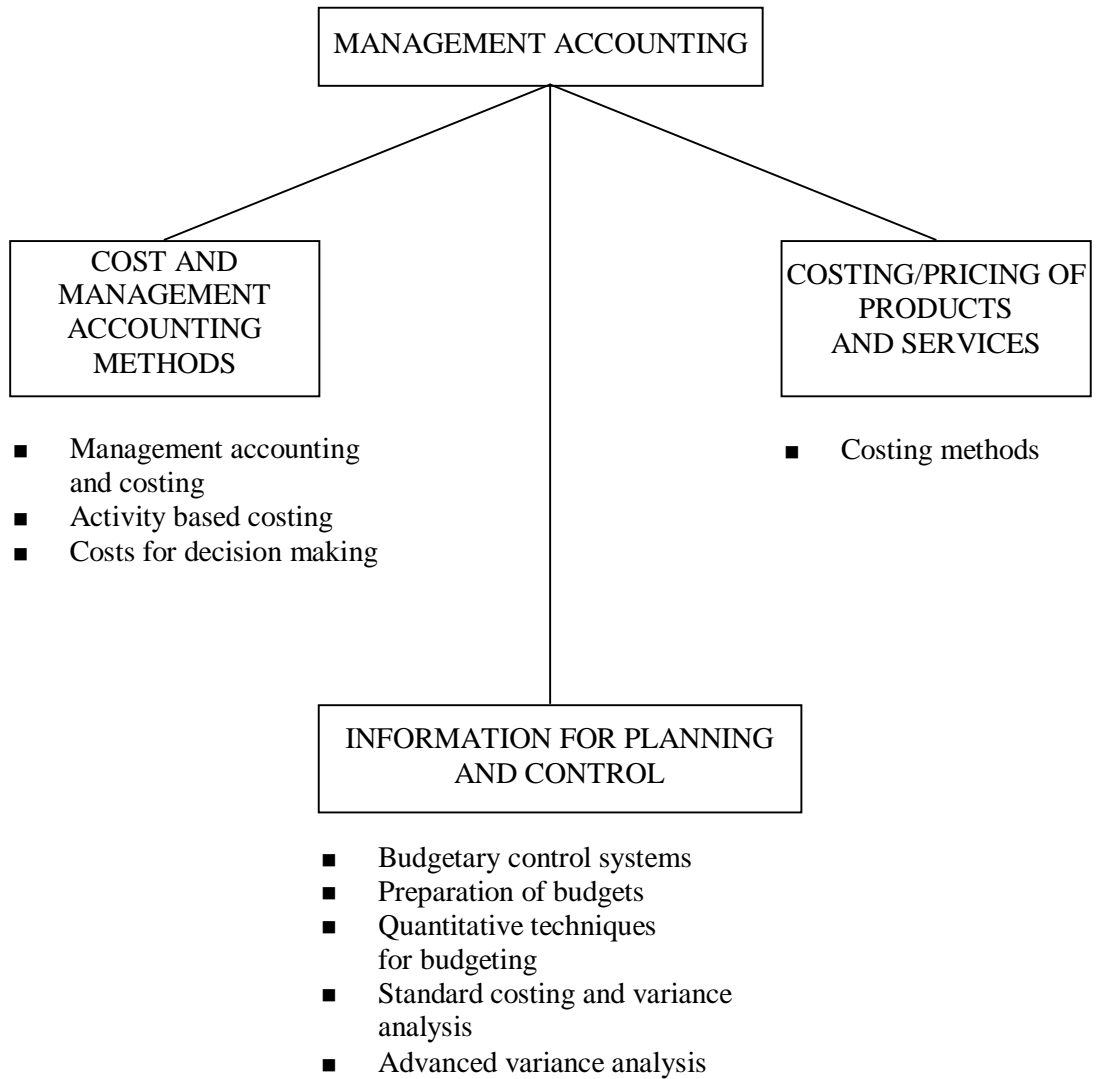
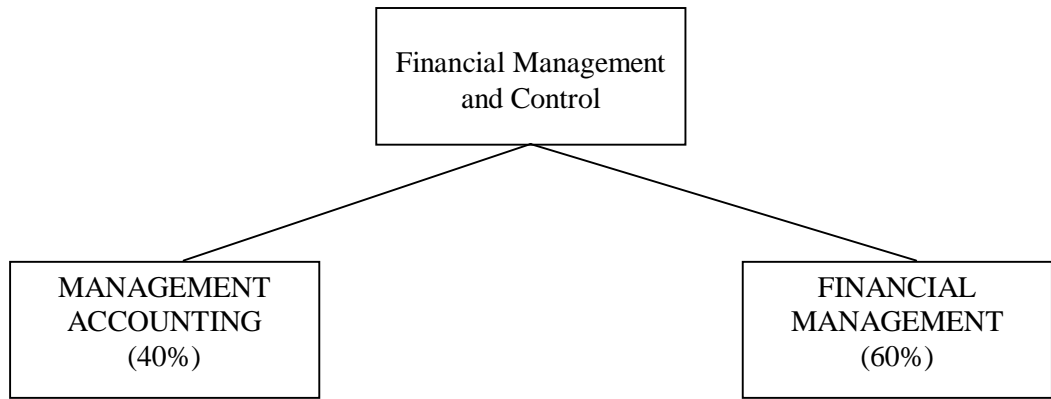
- explain the role and purpose of financial management
- evaluate the overall management of working capital
- evaluate appropriate sources of finance for particular situations
- appraise capital investment through the use of appropriate methods
- identify and implement appropriate costing systems and techniques
- prepare budgets and use them to control and evaluate organisational performance
- critically assess the tools and techniques of financial management and control
- demonstrate the skills expected in Part 2.

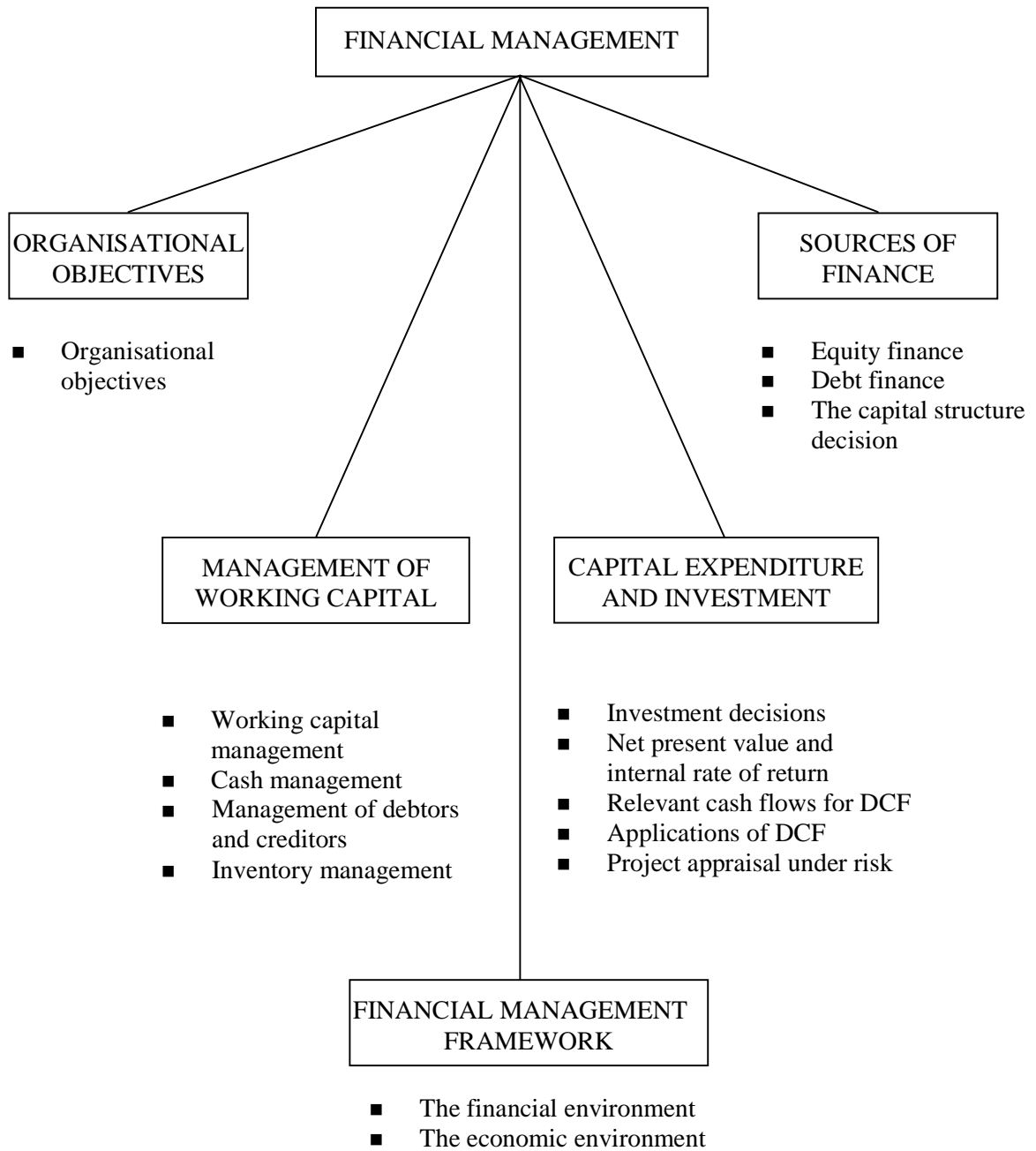
Position of the paper in the overall syllabus

Students must have a thorough knowledge of the material in Paper 1.2 *Financial Information for Management* and a good knowledge of other Part 1 papers. *Financial Management and Control* is integrated with other Part 2 papers as it provides a management decision framework within which aspects of the Part 2 syllabus are developed.

The effects of capital allowances and corporation tax on capital investment appraisal is examinable. Knowledge gained from Paper 2.3 *Business Taxation (UK)* will be useful in this respect.

Topics from Financial Management and Control are developed and advanced in Part 3 in Paper 3.3 *Performance Management* and Paper 3.7 *Strategic Financial Management*.





Syllabus Content

1 Financial management objectives

- a The nature, purpose and scope of financial management.
- b The relationship between financial management, management accounting and financial accounting.
- c The relationship of financial objectives and organisational strategy.
- d Problems of multiple stakeholders in financial management and the consequent multiple objectives.
- e Objectives (financial and otherwise) in not-for-profit organisations.

2 The financial management environment

- a Financial intermediation and credit creation.
- b Money and capital markets
 - i Domestic and international
 - ii Stock markets (both major markets and small firm markets).
- c The Efficient Markets Hypothesis.
- d Rates of interest and yield curves.
- e The impact of fiscal and monetary policy on business.
- f Regulation of business (for example, pricing restrictions, green policies and corporate governance).

3 Management of working capital

- a The nature and scope of working capital management.
- b Funding requirements for working capital.
- c Working capital needs of different types of business.
- d The relationship of working capital management to business solvency.
- e Management of stock, debtors, short term funds, cash, overdrafts and creditors.
- f Techniques of working capital management (including, inter alia, ratio analysis, EOQ, JIT, credit evaluation, terms of credit, cash discounts, factoring and invoice discounting, debtors cycles, efficient short term fund investing, cash forecasting and budgets, Miller-Orr models, basic foreign exchange methods, probabilities and risk assessment, terms of trade with creditors).

4 Sources of finance

- a Sources and relative costs (including issue costs) of various types of finance and their suitability to different circumstances and organisations (large and small, listed and unlisted) including:
 - i access to funds and the nature of business risk
 - ii the nature and importance of internally generated funds
 - iii capital markets (types of share capital, new issues, rights issues, loan capital, convertibles, warrants)
 - iv the effect of dividend policy on financing needs
 - v bank finance (short, medium and long term, including leasing)
 - vi trade credit
 - vii government sources: grants, regional and national aid schemes and tax incentives.
 - viii problems of small company financing (collateral, maturity, funding gap, risk)
 - ix problems of companies with low initial earnings (R&D, Internet, and other high-technology businesses)
 - x venture capital and financial sources particularly suited to the small company
 - xi international money and capital markets, including an introduction to international banking and the finance of foreign trade.
- b Requirements of finance (for what purpose, how much and for how long) in relation to a business's operational and strategic objectives.
- c The importance of the choice of capital structure: equity versus debt and basic analysis of the term profile of funds.
- d Financial gearing and other key financial ratios and analysis of their significance to the organisation.
- e Appropriate sources of finance, taking into account:
 - i cost of finance
 - ii timing of cash payments
 - iii effect on gearing and other ratios
 - iv effect on company's existing investors.

5 Capital expenditure and investment

- a Appraisal of domestic capital investment opportunities for profit and non-profit making organisations through the use of appropriate methods and techniques
 - i the risk return relationship
 - ii return on capital employed
 - iii payback
 - iv internal rate of return
 - v net present value
 - vi single and multi-period capital rationing
 - vii lease or buy decisions
 - viii asset replacement

Including (in categories (i)-(viii)) the effects of taxation, inflation, risk and uncertainty (probabilities, decision trees, sensitivity analysis, simulation).

6 Costing systems

- a The purpose of costing as an aid to planning, monitoring and control of business activity.
- b Information requirements of different approaches.
- c Costing information requirements and limitations in not-for-profit organisations.
- d Behavioural implications of different costing approaches including performance evaluation.
- e Implications of costing approaches for profit reporting, the pricing of products and internal activities/services.
- f The role of costing systems in performance evaluation and decision making.

7 Costing techniques

- a Allocating/apportioning costs through the use of appropriate techniques
 - i absorption, marginal and opportunity cost approaches to the accumulation of costs for specific orders (job, batch, contract) or operations (process, service)
 - ii activity based costing; use of cost drivers and activities
 - iii life cycle costing
 - iv target costing.

8 Standard costing and variance analysis

- a Standard costing
 - i determination of standards
 - ii identification and calculation of sales variances (including quantity and mix), cost variances (including mix and yield); absorption and marginal approaches
 - iii significance and relevance of variances
 - iv operating statements
 - v interpretation and relevance of variance calculations to business performance.
- b Planning and operational variances.
- c Behavioural implications of standard costing and variance reporting.

9 Budgeting and budgetary control

- a Objectives of budgetary planning and control systems including aspects of behavioural implications.
- b Evaluation of budgetary systems such as fixed and flexible, zero based and incremental, periodic, continuous and activity based.
- c Development, implementation and coordination of budgeting systems: functional, subsidiary and master/principal budgets (including cash budgeting); budget review.
- d Calculation and cause of variances as aids to controlling performance.
- e Quantitative aids to budgeting and the concepts of correlation, basic time series analysis (seasonality) and forecasting; use of computer based models.
- f Implications of costing systems on profit reporting.
- g Behavioural implications of budgeting and budgetary control.

Excluded Topics

The following topics are specifically excluded from the syllabus:

- Calculations involving the derivation of cost of capital in discounting problems. Candidates will always be supplied with an appropriate discount rate.
- Calculations relating to Modigliani and Miller propositions.

Key Areas Of The Syllabus

The core of the syllabus is aimed at developing the skills required in supporting managerial decision making. They reflect the core competencies needed for students to satisfy the aim of the paper identified above. The core areas are:

- financial management objectives
- management of working capital
- sources of finance
- capital expenditure and investment
- costing systems
- standard costing and variance analysis
- budgeting and budgetary control.

Approach To Examining The Syllabus

The examination is a three hour paper in two sections. Financial management issues will always, but not exclusively, be examined in Section A. The Section A question will typically be a scenario based question.

Most of the Section B questions will contain a mix of computation and discursive elements although it is intended that at least one question will be entirely discursive. The balance between computation and discursive elements will remain largely constant from one examination to the next.

Section A: One compulsory scenario-based question 50
Section B: Choice of 2 from 4 questions (25 marks each) 50

Additional Information

Present value and annuity tables will be provided in the examination. The ACCA Study Guide provides more detailed guidance on the syllabus. Wider reading is also desirable, especially regular study of relevant articles in the ACCA “student accountant” magazine.

EXAMINATION TECHNIQUE

Time allocation

- Divide your time in proportion to the marks on offer. To allocate your time multiply the marks for each question by 1.8 minutes.

eg 25 mark question should take you $25 \times 1.8 = 45$ minutes
- Stick to this time allocation.
- The first marks are the easiest to gain in each question, so don't overstep the time allocation on one question to tidy up a complicated answer, start the next question instead.

Numerical Questions

- Before starting a computation, picture your route. Do this by jotting down the steps you are going to take and imagining the layout of your answer. For example an NPV calculation will require a cashflow table and workings for tax savings, working capital etc.
- Set up a pro-forma structure to your answer before working the numbers. For example in an NPV calculation with tax it is important to maintain the distinction between the revenue and the capital cashflows.
- Use a columnar layout. This helps to avoid mistakes and is easier for the marker to follow.
- Include all your workings and cross-reference them to the face of your answer. For example ensure the marker can see where the entries for tax savings on your cashflow statement have come from. In that way it is easy for your marker to identify your errors and give you the marks you deserve.
- A clear approach and workings will help earn marks even if you make an arithmetic mistake.
- If you do spot a mistake in your answer, often it is *not* worthwhile spending time amending the consequent effects of it.
- Don't ignore marks for written recommendations or comments based upon your computation. These are easy marks to gain. If you have been unable to complete the previous part of the question or your answer is obviously wrong then assume a sensible answer and base your comments on this. Do not try to justify the unjustifiable!

Case Study/Scenario based questions

- Read the requirements carefully to identify
 - Instruction eg “outline, discuss”
 - Content eg “the factors, the advantages
 - Vehicle/Format eg “report, memo, letter
 - Addressee eg “the board, the accountant
- Read the scenario quickly to identify
 - Company name, dates, nature of business, performance.
- Recall the technical knowledge you have learned relating to the content from the requirements and your quick read of the scenario. The different methods of Investment Appraisal for example
- Read the scenario again slowly and actively
 - highlighting key points, or
 - noting implications in the margin, and
 - noting points on a plan of your answer.
- Draw together your technical knowledge and the points from the scenario. Do this by thinking and rearranging your plan, before you write up your answer.

Written Questions

Planning

- Read the requirements carefully at least twice to identify exactly how many areas you are being asked to address. Use the marking guide to establish how many points each section of your answer needs to make.
- Jot down relevant thoughts on your plan. Make yourself generate sufficient points.
- Give your plan a structure which you will follow when you write up the answer. Very often the structure can be developed from the structure of the requirement.

Presentation

- Use headings, indentation and bullet points to give your answer structure and to make it more digestible for the marker.
- Use short paragraphs for each point that you are making.
- Separate paragraphs by leaving at least one line of space between each one.

Style

- Pompous waffle does not impress markers. Concise, easily understood language scores marks.
- Lots of points briefly explained tends to score higher marks than one or two points elaborately explained.

GOOD LUCK!