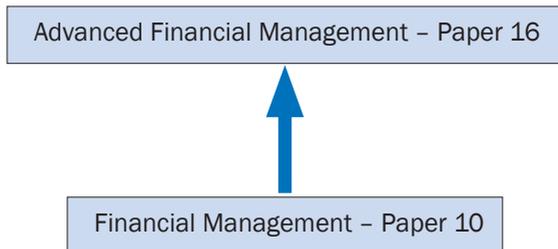


# FINANCIAL MANAGEMENT – PAPER 10

## SYLLABUS CHART



### **OVERALL AIM**

To develop knowledge and understanding of the basic financial management principles to aid financial decision making.

### **LEARNING OUTCOMES**

On completion of this course, the learner should be able to:

1. Explain the roles of financial management.
2. Describe the major theoretical concepts and tools of finance.
3. Evaluate investment projects.
4. Describe operations of securities markets.
5. Evaluate and compute a firm's cost of capital.
6. Analyse working capital and its elements.
7. Make an analysis of financial statements.
8. Describe the ethical issues and ways of mitigating them that financial managers face.

### **LEVEL OF ASSESSMENT**

The examination will be centered on the basics of financial management aimed at testing



knowledge and comprehension, as well as application and analysis.

## **EXAMINATIONS STRUCTURE**

There will be a three hour examination made up sections A and B. Section A will comprise of one compulsory question of 40 marks. Section B will comprise of four questions of 20 marks each, of which the candidate will be required to attempt any three.

## **DETAILED SYLLABUS**

### **A. INTRODUCTION**

1. The nature, role and importance of financial management

### **B. FINANCE FUNCTION AND ENVIRONMENT**

1. Importance of finance function
  - (a) The role of the finance, and finance function in an organisation
  - (b) The relationship between finance and other departments in the organisation
2. Forms of business organisations
  - (a) Sole proprietorship
  - (b) Partnership
  - (c) Corporations
3. Role of finance manager, financial controller and treasurer
  - (a) Role of the financial controller/managers in an organisation
  - (b) The treasury function and the function of the treasurer
  - (c) Centralised and decentralised treasury management
  - (d) Treasury as a profit and cost centre
  - (e) Ethical issues in financial management
4. Goals and objectives of a firm
  - (a) The various corporate objectives
  - (b) Corporate objectives and the corporate strategy
5. The agency theory
  - (a) The range of stakeholders and their objectives
  - (b) The various conflicts between stakeholder objectives
  - (c) The role of management in meeting stakeholder objectives and the agency theory
  - (d) Ways to encourage stakeholder objectives including management reward schemes
6. The external environment
  - (a) Environmental factors that affect achievement of organisational objectives
  - (b) Effect of Government policies on planning and decision making in business



## **C. ESSENTIAL CONCEPTS OF FINANCE**

1. The concept of risk and return
2. Meaning of simple interest, compound interest and discounting factor
3. The 'time value of money'
4. Future values and present values of a single cash flow
5. Perpetuities and annuities and their valuation
6. Shares and bonds (securities) and their features
7. Valuation of shares and bonds (including return on investment)

## **D. CAPITAL INVESTMENT APPRAISAL**

1. Importance of capital investment appraisal
2. Types of investment decisions:-
  - (a) Expansion of existing business
  - (b) Establishment of new business
  - (c) Replacement and modernisation
3. Criteria for making investment decisions
4. Criteria for accepting or rejecting an investment
5. Evaluation of capital investment projects using the following appraisal methods:
  - (a) Payback period (PBP)
  - (b) Net present value (NPV)
  - (c) Internal rate of return (IRR)
  - (d) Accounting rate of return (ARR)
  - (e) Profitability index (PI)
6. Merits and demerits of each investment appraisal method

## **E. FINANCIAL MARKETS AND SECURITIES EXCHANGE**

1. Meaning and types of financial markets
2. Purpose and operations of securities exchanges
3. Listing and cross-listing on securities exchanges
4. Players in financial markets in Uganda
5. Instruments traded on the securities exchange
6. Management and regulation of the securities exchange in Uganda:-
  - (a) Capital Markets Authority Act, 1996



- (b) Uganda Securities Exchange Statute, 1998
- 7. Conditions for listing on the securities exchange
- 8. Role and challenges facing the Uganda Securities Exchange (USE)

## **F. WORKING CAPITAL MANAGEMENT**

- 1. Meaning of working capital and working capital management
- 2. Importance of working capital and working capital management
- 3. Elements of working capital
- 4. Determination of working capital needs
- 5. Cash flows versus profits
- 6. Computation and interpretation of working capital ratios
- 7. Meaning and symptoms of overtrading
- 8. Meaning and warning signs of over capitalisation
- 9. Inventory management
- 10. Inventory costs:
  - (a) Stock out costs
  - (b) Holding costs
  - (c) Procurement costs
  - (d) Purchase cost
- 11. Economic order quantity (EOQ) model
- 12. Determination of EOQ under conditions of certain and uncertain demand
- 13. Inventory control systems:
  - (a) Total quality management
  - (b) Just-in-time
  - (c) Merits and demerits of each system
- 14. The working capital cycle and its elements
- 15. Meaning and importance of cash flow planning
- 16. Importance of cash management
- 17. Reasons for holding cash and other liquid assets
- 18. Models used to select optimum cash levels:
  - (a) Inventory approach
  - (b) Miller - Orr model



19. Determination of optimum level of cash using the inventory approach
20. Drawbacks of the inventory approach of cash management
21. Determination of optimal cash balances
22. Management of cash surpluses and deficits
23. Methods of cash remittance
24. Management of accounts receivable:
  - (a) Factors to consider when setting credit control policy
  - (b) Assessment credit worthiness of customers
  - (c) Determination of bad debts of a business
  - (d) Balancing of risks and costs of customer default against profitability
  - (e) Evaluation of credit policy
  - (f) Factoring and invoice discounting
  - (g) The role of factoring and invoice discounting in assisting the credit manager
  - (h) Customer credit rating and how it is carried out
25. Working capital financing
  - (a) Sources of short term finance for example:
    - (i) Commercial paper
    - (ii) Bank finance
  - (b) Availability of credit
  - (c) Risks associated with trading on credit

## **G. FINANCIAL ANALYSIS AND CONTROL**

1. Methods of analysis:
  - (a) Concept and role of financial analysis in corporate finance
  - (b) Methods of financial analysis, their merits and demerits
2. Ratio analysis:
  - (a) Determination of liquidity, debt, coverage, profitability and market value ratios
  - (b) Use of different ratios in financial analysis
  - (c) Measurement of achievement of stakeholder objectives using financial ratios
3. Computation, interpretation, uses and limitations of ratios:
  - (a) Determination and interpretation of various ratios used in financial analysis, including trend analysis and industry comparison
  - (b) Limitations of ratio analysis in decision making
4. Sales forecasts
 

Determination and preparation of sales forecasts for given period(s)
5. Projected financial statements and their preparation from forecast sales and other



data

6. Budgeting and leverage:
  - (a) Preparation of funds requirements budgets - cash budgets
  - (b) Role of leverage in budgeting and budgetary control

## **H. COST OF CAPITAL AND CAPITAL STRUCTURE**

1. The concept of cost of capital and its relevance in investment management
2. The various sources of finance for capital investment and the relative specific costs of each source of funds
3. Estimation of cost of equity and cost of debt:
  - (a) Use of the dividend growth model in the determination of the cost of equity and its limitations
  - (b) Determination of the cost of debt including preference shares, redeemable, irredeemable, and convertible debt
4. The concept of weighted average cost of capital (WACC):
  - (a) Average and marginal cost of capital
  - (b) Determination of WACC using book value and market value weightings

## **ETHICAL ISSUES**

Types of ethical issues that a finance manager can come across and their mitigation

## **REFERENCES**

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2. Pandey I M (2008): Financial Management, Vikas Publishing House. 9<sup>th</sup> Edition
3. Brayshaw RE, Samuel JM, and Wilkes FM (1995), Management of Company Finance, Cengage Learning. 6<sup>th</sup> Edition
4. Brigham EF and Weston JF (1986), Managerial Finance, Saunders College Publishing/Harcourt Brace. 8<sup>th</sup> Edition
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