

# Unit 15: Financial Management

**Unit code** M/508/0527

**Unit level** 5

**Credit value** 15

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## Introduction

The overall aim of this unit is to introduce students to basic financial management principles and strategies. Students will consider the importance of maximising shareholder wealth and long term growth. The main focus of this unit is to introduce students to, and develop their knowledge of, financial management decision-making and how this is used to support sustainable organisational performance. Students will also develop an appreciation of the role of a management accountant within a financial management system.

On successful completion of this unit students will be in a position to contribute effectively to the financial management function of an organisation. They will be able to support senior management accountants in reaching decisions which will impact on the financial performance of an organisation. In addition, they will have the fundamental knowledge and skills of financial management to progress onto a higher level of study.

## Learning Outcomes

By the end of this unit a student will be able to:

- 1 Apply different approaches used to support effective decision-making.
- 2 Analyse financial management principles which are used to support effective financial strategies.
- 3 Evaluate the role of management accountants and accounting control systems.
- 4 Evaluate ways in which financial decision-making supports sustainable performance.

## Essential Content

### LO1 **Apply different approaches used to support effective decision-making**

#### *Knowledge-based approach:*

A concept which primarily focuses on quantitative, objective and factual information to inform decision-making.

#### *Formal vs informal approaches:*

How the formal approach (using structure, systems, processes) differs from the informal approach (relationships, networks, unwritten rules).

#### *The role of stakeholders in decision-making:*

The contribution of internal stakeholders (the employees and manager's perspective on the situation) and the contribution of external stakeholders (e.g. suppliers or investors vested interests) to decision-making.

#### *'Make or buy' decisions:*

Reaching a strategic decision to internally make or externally buy based on significant influencing factors.

#### *Limiting factor analysis:*

Determine the impact of different constraints on production which could prevent sales/growth maximisation.

#### *Key factor analysis:*

The use of internal and external factors to determine the profitability of a product or service.

### LO2 **Analyse financial management principles which are used to support effective financial strategies**

#### *Setting objectives to achieve financial goals:*

Setting short, medium and long term goals and how these help to determine which aspect of financial data is used to create objectives.

*Ethical financial management:*

Why an organisation should conduct its financial activities in an ethical way. This requirement extends to making ethical decisions.

*Maximising shareholder wealth:*

Shareholders expect a return on an investment, a key strategic goal of any financial plan.

*Delivering sustainable long term growth:*

Use financial data to inform decisions which will lead to, and support, sustainable long term growth.

**LO3 Evaluate the role of management accountants and accounting control systems**

*Key functions of a management accountant:*

The application of financial management techniques to generate, interpret and present financial data to support effective decision-making.

*Financial management systems:*

The collection of activities ensuring effective financial management and the management of financial risk.

The use of new and advanced technologies to build integrated and inclusive financial systems.

The operational benefits and risks of new technology.

*Cost control and effective financial planning:*

Using past performance data, known information and predictions to control costs and support operational, tactical and strategic planning.

*Internal and external controls:*

Understanding what the controls are and why it is important to have both internal and external controls in place.

*Using financial management to detect and prevent fraud:*

Understanding what constitutes fraud, the implications of engaging in fraudulent activity and the techniques employed to detect and prevent fraud.

**LO4 Evaluate ways in which financial decision-making supports sustainable performance**

*Using information from financial ratios to inform decisions:*

Building on a fundamental understanding of how financial ratios are used and the data they provide, the use of this information to inform decisions is strategically and operationally important to all organisations.

*Using investment appraisal to inform decisions:*

Determine how the outcomes of investment appraisal techniques, such as NPV, IRR, ROCE and Payback periods, are used to inform the most appropriate action to maximise ROI.

*Appreciate the value of cash flow statements, trial balances and break even to financial decision-making:*

Each of these techniques are evaluated to determine their value as informants of decision-making.

## Learning Outcomes and Assessment Criteria

| Pass  | Merit  | Distinction  |
|---|--|--|
| <b>LO1</b> Apply different approaches used to support effective decision-making   |  | <b>D1</b> Critique the use of different formal and informal approaches to support decision-making in given organisational examples.  |
| <b>P1</b> Apply different formal and informal approaches used to support effective decision-making in given organisational examples.                                  | <b>M1</b> Analyse formal and informal approaches applied to support decision-making, addressing both advantages and disadvantages.   |  |
| <b>LO2</b> Analyse financial management principles which are used to support effective financial strategies   |  | <b>D2</b> Critically evaluate the importance of key financial management principles in supporting and delivering effective financial strategies for long term financial sustainability.  |
| <b>P2</b> Analyse the key financial management principles required by organisations to achieve effective financial strategies for long term financial sustainability. | <b>M2</b> Critically analyse the key financial management principles and their importance in delivering effective financial strategies for long term financial sustainability. |  |
| <b>LO3</b> Evaluate the role of management accountants and accounting control systems   |  | <b>LO3 and LO4</b><br><b>D3</b> Make justified recommendations on how the role of management accountants and accounting control systems can be improved to support financial decision-making in order to achieve long term financial sustainability. |
| <b>P3</b> Evaluate the role of management accountants and their value as part of an integrated system.  | <b>M3</b> Critically evaluate the role of management accountants and accounting control systems to support a culture of ethical financial management.                          |  |
| <b>P4</b> Evaluate the use of accounting control systems and their value as part of an integrated business system.  |  |  |
| <b>LO4</b> Evaluate ways in which financial decision-making supports sustainable performance  |  |  |
| <b>P5</b> Evaluate the ways in which financial decision-making is important for supporting long term financial sustainability.  | <b>M4</b> Critically evaluate how different ways of financial decision-making support long term financial sustainability.  |  |

## Recommended Resources

### Textbooks

AERTS, W. and WALTON, P. (2013) *Global Financial Accounting and Reporting: Principles and Analysis*. 3rd Ed. Cengage Learning EMEA.

ATRILL, P., (2014) *Financial Management for Decision Makers*. 7th Ed. Harlow: Pearson.

CORNWALL, J. R., VANG, D. O. and HARTMAN, J.M. (2012) *Entrepreneurial Financial Management: an applied approach*. 3rd Ed. London: M.E. Sharpe.

WEETMAN, P., (2013) *Financial and Management Accounting: An Introduction*. 6th Ed. Harlow: Pearson.

### Journals

*European Financial Management Journal*

*International Journal of Financial Management and Accounting*

*Journal of Multinational Financial Management*

### Links

This unit links to the following related units:

*Unit 5: Management Accounting*

*Unit 13: Financial Reporting*

*Unit 30: Taxation*