

## CPA PROFESSIONAL: MANAGERIAL FINANCE

### Aim

The aim of this module is to ensure that students understand the context of financial management and the role of the financial manager. They will develop skills advising decision-makers on the optimal business finance solutions available to them.

### Integration of this module with the rest of the syllabus

This module builds on the concepts covered and skills developed in the domains of economics, statistics, financial management and taxation. Students will further develop their skills in qualitative and quantitative analysis, report writing and integrate their learning with that from modules in other domains, such as financial reporting, economics, management accounting. This module is an essential underpinning to the further studies in Strategic Financial Management.

### Syllabus and Subject Dependencies

LEVEL	SUBJECT					
<b>CPA Foundation</b>	Financial Accounting	Management Fundamentals	Taxation		Management Accounting	
<b>CPA Professional</b>	Financial Reporting	Corporate Law	Advanced Taxation	Audit & Assurance	Performance Management	<b>Managerial Finance</b>
<b>CPA Strategic</b>	Advanced Financial Reporting	Strategy & Leadership	Advanced Tax Strategy	Advanced Audit & Assurance	Data Analytics for Finance	<b>Strategic Corporate Finance</b>

### Minimum Intended Learning Outcomes

*On successful completion of this module, students will be able to:*

- Discuss the financial environment and the role of financial management in supporting the development and attainment of organisations' financial policy
- Advise organisations on their short, medium and long-term financing decisions having assessed their options
- Evaluate competing investment proposals and advise organisations of the optimum choice
- Analyse the working capital management options available to organisations
- Analyse reasons for and advise on actions to prevent corporate failure.
- Assess company valuations for organisations and/or clients
- Advise on risk and recommend appropriate risk management strategies for interest rates and foreign currencies.
- Explain emerging technologies (Fintech, Blockchain and Cryptocurrency) and their impact on the role of the financial manager

## Indicative Syllabus

		Competency Level
<b>The Financial Environment</b>	<ul style="list-style-type: none"> <li>• Role of the financial manager</li> <li>• Financial objectives of profit and not-for-profit entities</li> <li>• The relationship between financial management, management accounting and financial reporting</li> <li>• Interests and influence of key stakeholder groups</li> <li>• Role of the financial services sector</li> <li>• Ethics and corporate governance issues in finance</li> </ul>	3 3 3 3 3 3
<b>Cost of Capital</b>	<ul style="list-style-type: none"> <li>• Cost of equity, dividend growth and Capital Asset Pricing Model (CAPM)</li> <li>• Weighted Average Cost of Capital (WACC)</li> <li>• Systematic and unsystematic risk</li> <li>• Portfolio theory</li> <li>• Dividend decisions</li> </ul>	2 2 2 2 2
<b>Sources of Finance</b>	<ul style="list-style-type: none"> <li>• Internally generated funds</li> <li>• Debt and equity markets</li> <li>• Banks and other financial institutions</li> <li>• Determinants of capital structure</li> <li>• Institutional investors</li> <li>• Venture capital</li> <li>• Government (Government Agencies) funding</li> <li>• Angel finance</li> <li>• Crowd-funding</li> <li>• The treasury function</li> </ul>	2 2 2 2 2 2 2 2 2 2
<b>Investment Appraisal</b>	<ul style="list-style-type: none"> <li>• Investment Appraisal techniques</li> <li>• Capital rationing</li> <li>• Effects of inflation</li> <li>• Effects of taxation</li> <li>• Risk, uncertainty, probability and sensitivity analysis</li> <li>• Time value of money</li> <li>• Relevant cash flows</li> </ul>	3 3 2 2 2 3 3
<b>Working Capital</b>	<ul style="list-style-type: none"> <li>• Working capital management strategies</li> <li>• The operating cycle</li> <li>• Management of cash, payables, receivables and inventory</li> <li>• Cash budgets and cash flow forecasts</li> <li>• Overtrading, evidence, causes and remedies</li> <li>• Inventory management</li> </ul>	2 2 2 2 2 2
<b>Corporate Failure</b>	<ul style="list-style-type: none"> <li>• Symptoms &amp; causes of corporate failure</li> <li>• Avoidance of corporate failure</li> <li>• Working capital management</li> <li>• Over-trading</li> </ul>	3 3 3 3
<b>Company Valuations</b>	<ul style="list-style-type: none"> <li>• Valuation models - Asset basis, earnings basis, discounted cash flow, dividend yield, dividend growth</li> </ul>	2

## Indicative Syllabus contd.

		Competency Level
<b>Risk Management</b>	<ul style="list-style-type: none"> <li>• Interest rate risks</li> <li>• Interest rate risk management</li> <li>• Currency risks</li> <li>• Currency risk management techniques</li> </ul>	2 2 2 2
<b>Emerging Technologies in Finance</b>	<ul style="list-style-type: none"> <li>• Dis – Intermediation and Fintech</li> <li>• Blockchain</li> <li>• Cryptocurrency</li> </ul>	1 1 1

## Learning Guide

**The financial environment**

- Explain the role of the financial manager and their interest in risk and return allied to the time value of money
- Evaluate the financial objectives of profit and not-for-profit entities vis a vis long term objectives
- Discuss the significance of the over-riding objective of long term shareholder wealth maximisation
- Explain the relationship between financial management, management accounting and financial reporting
- Appraise the interests of key stakeholder groups and their influence upon the role of the financial manager
- Describe the role of the financial services sector and the regulatory environment
- Discuss ethics and corporate governance issues in finance allied to the relationship between corporate social responsibility and shareholder wealth.

**Cost of Capital**

- Explain the significance of the concept of Cost of Capital in managerial finance in the areas of Investments, Finance, Dividends and their interrelationships with the role of the financial manager
- Discuss the trade-offs between debt and equity in the financing structure and the consequent variables affecting the cost of capital
- Calculate the cost of capital with equity and debt related elements
- Examine the Capital Asset Pricing model (CAPM) and its application in the area of Cost of Capital and in the wider domain of managerial finance
- Evaluate Weighted Average Cost of Capital (WACC), focusing on calculations and interpretation of the results
- Explain systematic risk and unsystematic risk with the concept of beta
- Examine portfolio diversification with balancing risk mitigation and returns generation
- Explain Portfolio theory and its application in practical managerial finance
- Calculate the risk and return of a two asset portfolio
- Identify the factors affecting dividend decisions that impact upon cost of capital

**Sources of Finance**

- Compare and contrast equity and debt financing, focusing on the attractions/returns and risks associated with each
- Identify the sources of short-term, medium-term and long-term funding
- Explain the nature and importance of internally generated funds, focusing on equity and preference shares
- Examine the role of banks and other financial institutions
- Evaluate the determinants of capital structure
- Outline the nature and role of capital markets, types of share capital including; rights issues, convertibles, warrants, and other instruments
- Summarise the role of Institutional investors and their concerns
- Examine other types of finance including Venture Capital financing, Government finance, angel finance, crowd funding, and emerging finance vehicles focusing on benefits and risks
- Identify the key activities undertaken by the treasury function in managerial finance
- Explain the relevance and irrelevance arguments of dividends as proposed by Modigliani and Miller (Irrelevance) and Litner and Gordon (Relevance)
- Evaluate dividend policy options and their theoretical and practical implications
- Examine the role of dividends and the trade-off decisions between finance, dividends and investments

## Learning Guide contd.

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### Investment Appraisal

- Examine the time value of money and the net present value concept (NPV) as used with investment decisions
  - Apply investment appraisal techniques both time value based and NPV based including payback, discounted cash flow and internal rate of return calculations.
  - Compare and contrast time value based and non-time value based techniques focusing on benefits and risks associated with each
  - Explain and exemplify the concept of 'relevant cash flows'
  - Evaluate non-financial factors/qualitative factors relevant to investment decisions
  - Explain the two types of capital rationing – soft and hard – allied to their implications for investment decisions
  - Examine the effects of taxation and inflation on investment decisions.
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### Working capital

- Explore effective working capital management strategies and corporate survival
  - Evaluate the elements of the operating cycle, focusing on cash conversion strategies
  - Examine debt and creditor management techniques including: credit evaluation, terms of credit, settlement discounts, debt collection techniques, factoring and invoice discounting
  - Apply cash budgets and cash flow forecasting techniques
  - Summarise inventory management techniques, including EOQ and JIT
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### Corporate Failure

- Examine the symptoms and causes of corporate failure, and combine various financial ratios to predict corporate failure; propose recommendations to avoid such failures.
  - Illustrate the nature, scope and elements of working capital and the importance of effective working capital management to corporate survival; and compare and contrast aggressive, neutral, and conservative working capital management strategies.
  - Explain overtrading and assess its symptoms, causes and remedies
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### Company valuations

- Apply methods of valuing a business, among these being asset bases; earnings bases; discounted cash flow; dividend yield and dividend growth
  - Explain the inter-relationship between company valuation and cost of capital
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### Risk management

- Evaluate interest rate risks and interest rate risk management techniques
  - Appraise currency risks and currency risk management techniques
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### Emerging Technologies in Finance

- Explain key concepts and under-pinnings of emerging technologies in the areas of managerial finance covering Dis – Intermediation, Fintech, Blockchain (Distributed Ledger technology) and Cryptocurrency
  - Discuss current and future applications of these emerging technologies in the area of managerial finance as the technologies evolve.
  - Explain threats and opportunities from these emerging technologies for the financial manager and the finance function in global organisations.
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## Learning Resources

### Core Texts

Arnold, G. and Lewis D. (2019) *Corporate Financial Management*, 6th Ed, Pearson ISBN-13: 978 12922140445.

### Manuals

Griffith College, CPA Professional Managerial Finance - Latest edition

### Supplementary Texts and Journals

Power, Walsh and O' Meara. (2009) *Financial Management - An Irish Text*, 3rd Ed, Gill & Mc Millan ISBN-13: 978-0717145546

Watson. D and Head A. (2019) *Corporate Finance Principles and Practice*, 8th Ed, Pearson ISBN 978-1292244310

Ward AM. (2014) *Finance Theory and Practice*, 3rd Ed, Chartered Accountants Ireland

Berk. J and De Marzo P (2020) *Corporate Finance*, 5th Ed, Pearson

Gates M (2017) *Blockchain: Ultimate guide to understanding blockchain, bitcoin, cryptocurrencies, smart contracts and the future of money*. Copyrighted material – Paperback

Sarmah S, (2018) *Understanding Blockchain technology*, Available at Computer Science and Engineering 2018, 8(2): 23-29

CPA Students' eBulletin Recommended Journals Financial Director, Harvard Business Review, Investment International. Accounting and Business. Accountancy Plus.

### Useful Websites

[www.investopedia.com](http://www.investopedia.com)

[www.ft.com](http://www.ft.com)

[www.cpaireland.ie](http://www.cpaireland.ie) - CPA Ireland

[www.bloomberg.com/europe](http://www.bloomberg.com/europe) - Bloomberg