

Intermediate Course
Study Material
(Modules 1 to 2)

PAPER 8A

Financial
Management

MODULE – 1



BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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BEFORE WE BEGIN...

In the changing dynamics of business environment the role of a Chartered Accountant is not only restricted to accounting and auditing but has also shifted towards strategic decision making and entrepreneurship. It has necessitated the Chartered Accountancy profession to re-position itself from traditional role of accountants to a global business solution provider. In the era of digitization where the form of markets has evolved from brick and mortar to cloud based e-market, emergence of new financial instruments and currencies opened the avenues of opportunities in the guise of challenges. The world of finance is evolving with each passing day, so to the scope of financial management. The Board of Studies (BoS) of The Institute of Chartered Accountants of India (ICAI) with a motto to provide quality education and training to the aspiring Chartered Accountants has been continuously reviewing and updating the study material and making relevant changes in it. To make the aspiring Chartered Accountants contemporaneous and ready to play a key role in the dynamic global business environment; the competence requirements are continuously reviewed to inculcate the requisite professional competence.

Under the Revised Scheme of Education and Training, at the Intermediate Level, students are expected not only to acquire professional knowledge but also to develop the ability to apply the knowledge in real life business situations. The process of learning should also help the students in imbibing professional skills, i.e., the intellectual skills and communication skills, necessary for achieving the desired professional competence.

The entire syllabus has been divided into ten chapters. The chapters have been grouped into two modules:

Module-1 Consisting of Six chapters namely:

Chapter-1: Scope and Objectives of Financial Management

Chapter-2: Types of Financing

Chapter-3: Financial Analysis and Planning- Ratio Analysis

Chapter-4: Cost of Capital

Chapter-5: Financing Decisions- Capital Structure

Chapter-6: Financing Decisions- Leverages

Module-2 Consisting of four chapters namely:

Chapter-7: Investment Decisions

Chapter-8: Risk Analysis in Capital Budgeting

Chapter- 9: Dividend Decisions

Chapter- 10: Management of Working Capital

The content for each chapter at the Intermediate level has been structured in the following manner –

1. Learning Outcomes – Learning outcomes which you need to demonstrate after learning each topic have been detailed in the first page of each chapter. Demonstration of these learning outcomes would help you to achieve the desired level of technical competence.

2. Chapter Overview - As the name suggests, this chart/table would give a broad framework of the contents covered in the chapter.

3. Introduction – A brief introduction is given at the beginning of each chapter, which would help you get a feel of the topic.

4. Content - In each chapter, the topics have been covered following 'step by step' approach. The concepts are explained in student-friendly manner with the aid of Examples/illustrations/diagrams/flow charts/Pictorials as per requirement. These value additions would help you develop conceptual clarity and to get a good and quick grasp of the topic. Diagrams, Pictorials and Flow charts would help you understand the concepts in a better manner. Illustrations would help you understand the application of concepts/provisions. More illustrations/Practical questions in Test Your Knowledge section have been added to enable a thorough practice of variety of questions. The flow of content in chapter have been reviewed and changed to make it more student friendly.

5. Illustration with answers – Illustrations and examples has been included in the Study Material systematically, after discussion on each topic, so that application of the concept can be understood very clearly. This would also enable you to learn and sharpen your application skills and test your understanding. Illustrations and practical questions have been re-arranged in a systematic way appropriately as per the requirement of each chapter.

6. Let us recapitulate – A summary of the chapter is given at the end to help you revise what you have learnt. It would especially help you to revise the chapter(s) quickly the day before the examination.

7. Test your Knowledge - This comprises of Multiple Choice Questions (MCQ), Theoretical Questions and Practical Problems with solutions which test the breadth and depth of your understanding of the topic. More number of MCQs also has been added for conceptual clarity of the topics.

8. Skill specification Assessment - An indicative skill specification Assessment Grid has been incorporated in the study material for better understanding of the students. An effort has been made to arrange the questions/illustrations/exercise accordingly.

In this Study Material, formats of Financial Statements (i.e. Balance Sheet, Income Statements etc.) and financial terms used are for illustrative purpose only. For appropriate format and applicability of various Standards, students are advised to refer the study material of appropriate subject(s). Further the solutions/answers contained in the study material are based on certain assumptions, and other logical alternative assumption/ approach/ presentation may be possible. Every effort has been made to remove typing errors (if any)/ clerical errors (if any)/ missing content (if any)/ formatting errors (if any) so as to make Study Material error free, however, if inadvertently any error is present and found by readers they may send it to us immediately, so that it can be rectified at our end.

In case you need any further clarification/ guidance, you may send your queries at fm-inter@icai.in

Happy Reading and Best Wishes!

SKILL SPECIFICATION ASSESSMENT GRID

Skill Level	Manner of Assessment of Skills	Illustrative verbs used to construct learning outcomes
Level-I: Knowledge and Comprehension	Understanding or grasping ability (Defining, stating, enlisting, identifying, and explaining concepts / provisions/theories/principles relating to the relevant subject area.)	List – Preparing a list of State – Mentioning clearly or fully the details of. Define – Explaining the exact meaning of. Describe – Giving detailed narration of something or key features. Distinguish – Mentioning or highlighting the difference between. Explain – Making the meaning of. Identify – Recognizing something. Illustrate – Explaining something with the help of an example. and similar verbs Combination of verbs: Comprehend and Explain; Identify and explain and similar verbs.
Level-II: Application and Analysis	Applying and analyzing the concepts learned during the grasping level.	Application: Apply – Putting theoretical knowledge for

	<p>(Application: Applying concepts / provisions / theories / principles in problem solving in non-complex scenarios.)</p>	<p>practical purpose.</p> <p>Calculate – Arriving at some value by following numerical/ analytical procedures.</p> <p>Compute - Arriving at some value by following numerical/ analytical procedures.</p> <p>Determine- Ascertain or establish exactly by calculation or workings.</p> <p>Find/ Find out- Ascertain or establish exactly by calculation or workings.</p> <p>Demonstrate – Proving something with certainty using practical means.</p> <p>Prepare – Making something ready for any use.</p> <p>Reconcile – Making or proving consistency/ compatibility.</p> <p>Solve – Find an answer or solution to something</p> <p>Tabulate – Exhibiting the required information in a tabular form.</p> <p>Combination of verbs: Compare and contrast and similar verbs.</p>
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	<p>(Analysis: Applying, comparing and analysing concepts / provisions / theories / principles in problem) solving in moderately complex scenarios.)</p>	<p>Analysis:</p> <p>Analyze - Examining something in detail.</p> <p>Categorize – Arranging something in a predefined group or class or division.</p> <p>Compare - Examining the differences or similarities between.</p> <p>Construct - Building or compiling.</p> <p>Discuss –Writing about or examining in detail.</p> <p>Interpret – Translating in intelligible or familiar or understandable terms.</p> <p>Combination of verbs: Analyse and apply and similar verbs.</p>
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SYLLABUS

PAPER – 8 : FINANCIAL MANAGEMENT AND ECONOMICS FOR FINANCE

(One paper – Three hours – 100 Marks)

SECTION A : FINANCIAL MANAGEMENT (MARKS: 60)

Objective:

To develop an understanding of various aspects of Financial Management and acquire the ability to apply such knowledge in decision-making.

1. Financial Management and Financial Analysis

(i) Introduction to Financial Management Function

- a) Objective and scope of financial management
- b) Role and purpose
- c) Financial management environment
- d) Functions of finance executives in an organization
- e) Financial distress and insolvency.

(ii) Financial Analysis through Ratios

- a) Users of the financial analysis
- b) Sources of financial data for analysis
- c) Calculation and Interpretation of ratios:
 - Analysing liquidity
 - Analysing leverage
 - Analysing solvency
 - Analysing efficiency/ activity
 - Analysing profitability

- d) Limitations of ratio analysis

2. Financing Decisions

(i) Sources of Finance

- a) Different Sources of Finance, Characteristics of different types of long term debt and equity finance, Method of raising long term finance
- b) Different Sources of short term Finance
- c) Internal fund as a source of finance
- d) International sources of finance
- e) Other sources of finance- Lease Financing, Sale and lease back, Convertible debt, Venture capital, Grants etc.

(ii) Cost of Capital

- a) Significance of cost of capital
- b) Factors of cost of capital
- c) Measurement of costs of individual components of capital
- d) Weighted average cost of capital (WACC)
- e) Marginal cost of capital
- f) Effective Interest rate

(iii) Capital Structure Decisions

- a) Significance of capital structure
- b) Determinants of capital structure
- c) Capital structure planning and designing
- d) Designing of optimum capital structure
- e) Theories of Capital Structure and value of the firm- relevancy and Irrelevancy of capital structure.
- f) EBIT- EPS Analysis, Breakeven- EBIT Analysis.
- g) Under/ Over Capitalisation.

(iv) Leverages

- a) Types of Leverages- Operating, Financial and Combined

- b) Analysis of leverages

3. Capital Investment and Dividend Decisions

(i) Capital Investment Decisions

- a) Objective of capital investment decisions
- b) Methods of Investment appraisal:
 - Payback period, Discounted payback period
 - Accounting Rate of Return (ARR),
 - Net Present Value (NPV) - The meaning of NPV, Strengths and limitations of NPV method, The working capital adjustment in an NPV analysis, Capital rationing, Equivalent Annual Costs,
 - Internal Rate of return (IRR)- Limitations of the IRR method, Multiple IRRs,
 - Modified internal Rate of Return (MIRR)- Definition and explanation of MIRR, The process for calculating MIRR, Strengths of the MIRR approach.
 - Profitability Index

(ii) Adjustment of Risk and Uncertainty in Capital Budgeting Decision

- a) Probability Analysis
- b) Certainty Equivalent Method
- c) Risk Adjusted Discount Rate
- d) Scenario Analysis
- e) Sensitivity Analysis

(iii) Dividend Decisions

- a) Basics of Dividends
- b) Forms of dividend
- c) Determinants of dividend
- d) Relevancy and Irrelevancy of Dividend Policies- Traditional Approach, Walter's model, Gordon's model, Modigliani and Miller (MM) Hypothesis.

4. Management of Working Capital

(i) Management of Working Capital

- a) The management of working capital- Liquidity and Profitability
- b) The Working capital financing decisions- Primary and Secondary Sources of Liquidity
- c) The working Capital Cycle (operating Cycle), Effectiveness of Working Capital based on its operating and cash conversion cycles
- d) Assessment of working capital requirement
- e) Management of Accounts Receivables (Debtors)
- f) Factoring and Forfaiting
- g) Management of Accounts Payables (Creditors)
- h) Management of Inventory
- i) Management of Cash, Treasury management
- j) Banking norms of working capital finance

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Chapter-2: Types of Financing

Chapter-3: Financial Analysis and Planning-Ratio Analysis

Chapter-4: Cost of Capital

Chapter-5: Financing Decisions-Capital Structure

Chapter-6: Financing Decisions-Leverages

MODULE - 2

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Chapter-8: Risk Analysis in Capital Budgeting

Chapter-9: Dividend Decisions

Chapter-10: Management of Working Capital

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