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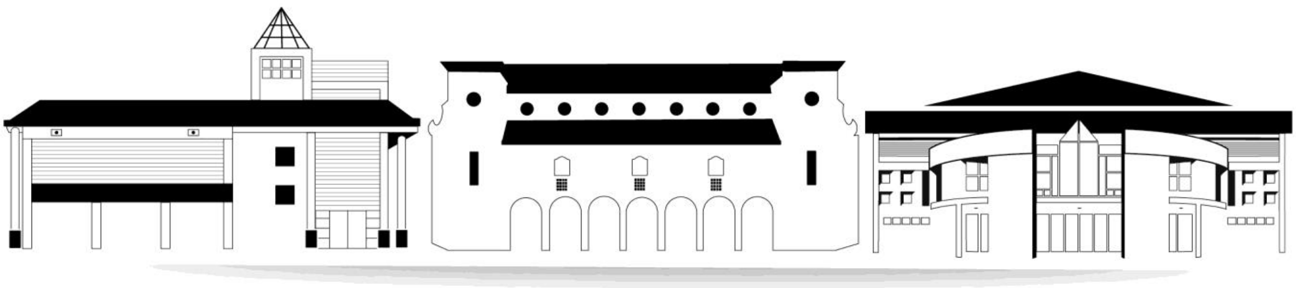

MBAC 813 PEC

FINANCIAL MANAGEMENT

Faculty of Economic and Management Sciences

Study guide compiled by: Prof Ines Nel

North-West University

MODULE CONTENTS

Module information

Module code	MBAC 813
Module Credits	12
Module name	Financial Management
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Action Verbs

These action verbs are included, in order to provide clarity of what is expected of you as a student. Please study them and make sure that you understand the meaning of each.

- **Analyse**

Identify parts or elements of a concept/phenomenon and describe them one by one.

EXAMPLE: Analyse a typical financial issue and describe each aspect in detail.

- **Compare**

Point out the similarities (things that are the same) and the differences between objects, ideas or points of view. The word "contrast" can also be used. When you compare two or more objects, you should do so systematically by completing one aspect at a time. It is always better to do this in your own words.

EXAMPLE: Compare shares and debentures as sources of capital.

- **Criticise**

This means that you should indicate whether you agree or disagree about a certain statement or view. You should then describe what you agree/disagree about and give reasons for your view.

EXAMPLE: Write critical comments on the value of the Capital Asset Pricing Model with regard to the determination of required return.

- **Define**

Give the precise meaning of something. Very often definitions have to be learnt word for word.

EXAMPLE: Define the concept of financial leverage.

- **Demonstrate**

Include and discuss examples. You have to prove that you understand how a process works or how a concept is applied in real-life situations.

EXAMPLE: Give a written demonstration of the influence of financial leverage on financial risk.

- **Describe**

Say exactly what something is like; give an account of the characteristics or nature of something; explain how something works. No opinion or argument is needed.

EXAMPLE: Describe the characteristics of an ordinary share, debenture, etc.

- **Discuss**

Comment on something in your own words. Often requires debating two viewpoints or two different possibilities.

EXAMPLE: Discuss the differences between shares and debentures as sources of capital.

- **Distinguish**

Point out the differences between objects, different ideas, or points of view. Usually requires you to use your own words.

EXAMPLE: Distinguish between wealth maximisation and profit maximisation as goals of a business.

- **Essay**

An extensive description of a topic is required.

EXAMPLE: Write an essay about the influence of the economic environment on the financial management function in a business.

- **Example**

A practical illustration of a concept is required.

EXAMPLE: See our examples on the application of a specific formula to calculate.

- **Explain**

Clarify or give reasons for something, usually in your own words. You must prove that you understand the content. It may be useful to use examples or illustrations.

EXAMPLE: Briefly explain the following:

(a) The valuation of bond and debentures

(b) Portfolio theory

- **Identify**

Give the essential characteristics or aspects of a certain model.

EXAMPLE: Identify the characteristics of a valuation model.

- **Illustrate**

Draw a diagram or sketch that represents a phenomenon or idea.

EXAMPLE: Write a short essay and illustrate how portfolio theory can be applied to create an investment portfolio.

- **List**

Simply provide a list of names, facts or items asked for. A particular category or order may be specified.

EXAMPLE: List the characteristics of shares.

- **Motivate**

You should give an explanation of the reasons for your statements or views. You should try to convince the reader of your view.

EXAMPLE: Write an essay on the use of debt to create wealth. Motivate your views.

- **Name or mention**

Briefly describe without giving details.

EXAMPLE: Name three methods of valuation.

- **Outline**

Emphasise the major features, structures or general principles of a topic, omitting minor details. Slightly more detail than in the case of naming, listing or stating of information is required.

EXAMPLE: Outline the major features of the Constant Growth model.

- **State**

Supply the required information without discussing it.

EXAMPLE: State three functions of your financial calculator.

- **Summarise**

Give a structured overview of the key (most important) aspects of a topic; must always be done in your own words.

EXAMPLE: Give a summary of the core characteristics of the Capital Asset Pricing Model.

- **Formulate**

To set forth systematically.

EXAMPLE: Formulate a financing strategy to maximise the price of a business' shares.

SKILLS /LEVEL DESCRIPTORS			F0
	a. integrate the scope of knowledge		**X**
	b. apply knowledge literacy		
	c. apply appropriate methods & procedures		**X**
	d. address problem solving		**X**
	e. integrate managerial ethics		
	f. to do research to access, process & manage information		**X**
	g. to communicate effectively		
	h. to make appropriate level interventions re context and systems		**X**
	i. to develop the management of learning		
	j. be accountable		

Assessment criteria

The module outcomes will be mastered if you are able to:

- Apply financial management theory and principles to solve complex financial issues in a dynamic business environment.
- Derive, interpret, assess and solve complex financial issues systematically and logically to create practical and sustainable business solutions.
- To research financial issues theoretically and empirically and have the ability to effectively communicate findings and solutions to a target audience; and
- Conduct ethical behaviour as student, employee or employer and as person in general.

Module outcomes

Upon the completion of this module you should:

- Be able to demonstrate comprehensive and systematic knowledge of financial management theory with regard to investment, financing, and working capital decision making and have the ability to apply the theory to achieve strategic financial goals.
- Have the ability to identify, gather, organize, analyse, interpret, and evaluate financial issues, opportunities and figures in a complex business and work environment to systematically and creatively solve complex financial problems and create opportunities to create wealth for shareholders and the community.
- Have the research skills to apply advanced data gathering/retrieval and processing techniques to allow sensible quantitative and qualitative assessment based on sound theory to effectively solve, present and communicate complex problems in the organisation, business, national and international environments; and
- Demonstrate the ability manage and execute learning and work activities professionally, ethically and effectively as an individual within a group and have the ability to sustainably in future operate according to established ethical norms.

Assessment methods

Assessment will be in both formative and summative format. Formative assessments will be in the form of class activities, class tests, individual and group assignments. Summative assessment will be in the form of a formal examination.

Assessment plan

Informal formative assessment:

Assessment method	Number of times
Class discussions	Continuous per contact session
Group discussions	Continuous per contact session
Class questions and answers	Continuous per contact session
Small cases	Per contact session as arranged in class

Formative Assessment (Participation mark):

Assessment method	Number	Maximum marks	Weight
Individual assignment	1	100	50
Group assignment	1	100	50

Summative (Examination mark):

Assessment method	Number	Maximum marks	Weight
Examination	1 (4 hours)	100	100

Module mark

Module mark = Participation mark weight 40%: Examination mark weight 60%

Prescribed book / material

Brigham E.F, Erhardt M.C, Fox R. 2016. Financial Management Theory and Practice. Europe, Middle East, Africa Edition. Cengage Learning ISBN-978-1-4737-2960-5..

Financial calculator: No specific model is prescribed the following models or models with the same functionality may be considered: Hewlett Packard 10B, 12B, 17B or 19B. I use the 10BII+ in class. Most students buy either the 10B or 12B which makes it easy for in class use. Other models to be considered are: The Sharp 745i or 733i.

Additional reading

Should a student experience problems with specific concepts or principles in the text book any financial management book in the library may be consulted. The names of two additional books with authors for consultation will be available on the eFundi platform for MBAC 813.

Take note that it may sometimes be necessary for students to consult scientific sources and for general financial knowledge the internet. With regard to the internet keep in mind that it is not considered a scientific source. Scientific sources are those articles published in scientific journals please contact the library they will keenly assist you to get access to scientific sources.

Themes covered in this module

1. Financial reporting in the business environment.
2. Fixed income securities: An introduction to valuation.
3. Shares and derivatives.
4. Projects and their valuation.
5. Corporate governance issues; and
6. Financial decisions.

Work programme

SESSION	THEME	READING	Study hours
Study School A 29 January 02 February	**Theme 1: Financial reporting in the business environment.**	**Textbook**	
	Central Concepts in Finance and Financial Management.	Chapter 1	3
	Understanding Financial Statements Part 1: Overall structure.	Chapter 2	3
	Understanding Financial Statements Part 2: Analysing and Managing the Accounts	Chapter 3	3
		See additional reading	
1 (P) 10 Feb (V) 12 Feb	**Theme 2: Fixed income securities: An introduction to valuation:**	Textbook	
	Time Value of Money.	Chapter 4	4
	Bonds and Bond Management	Chapter 5	4
		See additional reading	
2 (P) 24 Feb (V) 26 Feb	**Theme 3: Shares and derivatives:**	Textbook	
	Risk and Return.	Chapter 6	4
		See additional reading	
3 (P) 10 March (V) 12 March	**Theme 3: Shares and derivatives:**	Textbook	
	Market Efficiency and Behavioural Finance: Understanding Share Price Behaviour	Chapter 7	4
	Valuation of Shares and Companies	Chapter 8	4
		See additional reading	
4 (P) 24 March (V) 26 March	**Theme 3:. Shares and derivatives:**	Textbook	
	Financial Derivatives and Application in Corporate Finance	Chapter 9	4
		See additional reading	
	Submit individual assignment		

5 (P) 07 April (V) 09 April	**Theme 4: Projects and their valuation** Project Cost of Capital Capital Budgeting: Evaluation of Cash Flows	Textbook Chapter 10 Chapter 11 See additional reading	 4 4
6 (P) 21 April (V) 23 April	**Theme 5: Corporate governance issues** Agency Conflicts and Corporate Governance Enterprise Risk Management	Textbook Chapter 12 Chapter 13 See additional reading	 2 3
7 (P) 05 May (V) 07 May	**Theme 6: Financial decisions** Distribution to Shareholders: Dividends and Repurchases Borrowing and Capital Structure Decisions	Textbook Chapter 16 Chapter 17 See additional reading	 4 4
	Submit group assignments		
8 (P) 19 May (V) 21 May	**Theme 6: Financial decisions** Borrowing and Capital Structure Decisions	Textbook Chapter 17 See additional reading	 4
Self study	*Short Term Financing Decisions*	*Textbook* *Part 7*	*4*

Do the Mini-Case at the end of each chapter as preparation to benefit the most from lectures.

Icons

Time	Time allocation	Outcomes	Learning outcomes
Study Material	Study material	Assessment	Assessment / Assignments
Individual Activity	Individual exercise	Group Activity	Group Activity
Example	Example	Reflection	Reflection

Warning against plagiarism

ASSIGNMENTS ARE INDIVIDUAL TASKS AND NOT GROUP ACTIVITIES. (UNLESS EXPLICITLY INDICATED AS GROUP ACTIVITIES)

Copying of text from other learners or from other sources (for instance the study guide, prescribed material or directly from the internet) is **not allowed** – only brief quotations are allowed and then only if indicated as such.

You should **reformulate** existing text and use your **own words** to explain what you have read. It is not acceptable to retype existing text and just acknowledge the source in a footnote – you should be able to relate the idea or concept, without repeating the original author to the letter.

The aim of the assignments is not the reproduction of existing material, but to ascertain whether you have the ability to integrate existing texts, add your own interpretation and/or critique of the texts and offer a creative solution to existing problems.

Be warned: students who submit copied text will obtain a mark of zero for the assignment and disciplinary steps may be taken by the Faculty and/or University. It is also unacceptable to do somebody else's work, to lend your work to them or to make your work available to them to copy – be careful and do not make your work available to anyone!

For the NWU link for plagiarism, go to http://www.nwu.ac.za/webfm_send/25355

Study unit 1

FINANCIAL REPORTING IN THE BUSINESS ENVIRONMENT

OUTCOMES OF THEME 1

Study outcomes

Outcomes

Students should be able to:

- Explain the function and position of financial management in the company and business environment.
- Analyse the financial statements in the context of value creation and use the information to create sustainable business solutions.

Study unit 2

FIXED INCOME SECURITIES: AN INTRODUCTION TO VALUATION

OUTCOMES OF THEME 2

Study outcomes

Outcomes

Students should be able to:

- Demonstrate that they can apply time value of money concepts for rational financial decision-making.
- Analyse and process financial information to value fixed income securities; and
- Effectively communicate valuation principles, theory and outcomes, to an applicable audience.

Study unit 3

SHARES AND DERIVATIVES.

OUTCOMES OF THEME 3

Study outcomes

Outcomes

Students should be able to:

- Identify, quantify and analyse risk and demonstrate an understanding of its relationship with rate of return.
- Incorporate risk assessment into financial and strategic decisions for sustainable value creation.
- Explain, discuss and integrate portfolio management theory into strategic financial decisions.
- Analyse and process financial information, have the ability to value shares and organisations as well as discuss and/or communicate valuation principles, -theory and -outcomes, effectively with a specific audience.
- Explain, discuss and apply the theory of derivatives specifically options, in the context of optimal financial decision-making.
- Explain, discuss and utilise the basic calculus with regard to options and derivatives; and
- Critically analyse “Behavioural Finance” and effective market issues to enable rational financial decisions.

Study unit 4

PROJECTS AND THEIR VALUATION.

OUTCOMES OF THEME 4

Study outcomes

Students should be able to:

- Integrate all facets of the capital budgeting process and techniques to enable them to make rational value adding capital budgeting decisions.
- Explain, discuss communicate and defend capital budegting decisions.
- Project and analyse future cash flow in a practical and theoretical context to enable sound capital budgeting decision-making; and
- Interpret and analyze financial information as well as apply financial theory to correctly determine cost of capital for projects with consideration of project risk.

Study unit 5

CORPORATE GOVERNANCE ISSUES

OUTCOMES OF THEME 5

Study outcomes

Outcomes

Students should be able to:

- Explain the concept of agency cost and how it influences indiividual stakeholders.
- Analise the impact of agency cost theoretically and practically in the context of value based management.
- Identify and manage agency practices in the operational environment ; and
- Develop plans to prevent the negative impact that agency practices may have.

Study unit 6

FINANCIAL DECISIONS

OUTCOMES OF THEME 6

Study Outcomes

Outcomes

Students should be able to:

- Explain and discuss the importance of long term financing in terms of the goal of wealth creation.
- Discuss capital structure theory and taxes, and apply the theory for improved capital structure decision-making; and
- Analyse, interpret and communicate the benefits of using debt financing in the context of financial decisions to ensure sustainable value creating businesses.

Assignments

INDIVIDUAL ASSIGNMENTS

This assignment covers Textbook chapters 1 to 6

Assignments with the necessary accompanying data will be handed out at the study school.

Assignment length: Maximum of 8 pages (Font size 12, margins 2,5 cm, Letter type Arial).

Detail financial forecasts and calculations should be attached as an addendum.

Your assignment (the body of the assignment not the addendum) must be prepared as a business presentation or executive summary that is academically well supported. This means that you will have to spend time to arrange your assignments such that "brief" but logical and powerful arguments are offered in the assignment.

NB: 1) Nothing beyond the prescribed number of pages will be marked 2) students risk losing as much as 50% of their marks if they do not adhere to font and margin specifications above.

GROUP ASSIGNMENT

This assignment covers all the prescribed chapters excluding chapter 17

Assignments with the necessary accompanying data will be handed out at the study school.

Assignment length: maximum of 8 pages (Font size 12, margins 2,5 cm, Letter type Arial).

Detailed financial forecasts and calculations should be attached as an addendum.

Your assignment (the body of the assignment not the addendum) must be prepared as a business presentation or executive summary that is academically well supported. This means that you will have to spend time to arrange your assignment such that "brief" but logical and powerful arguments are offered in the assignment.

NB: 1) Nothing beyond the prescribed number of pages will be marked 2) students risk losing as much as 50% of their marks if they do not adhere to font and margin specifications above.