

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

www.XtremePapers.com

**Cambridge International Diploma in Management
Higher Professional Level**

Scheme of Work

4258
Financial Management
Core Module



UNIVERSITY *of* CAMBRIDGE
International Examinations

MODULE NUMBER (CORE) 4258: FINANCIAL MANAGEMENT

INTRODUCTION

Scope of the module

This core module addresses some of the key aspects of financial management for the non-financial specialist. It does not purport to generate the skills necessary for the specialist role associated with financial accountancy but it is designed to develop in managers the skills to work at the strategic level of an organisation. The focus of the module is to provide a sound understanding to the extent that it will allow all managers to engage in discussion, debate and analysis of financial matters that impinge on the strategic management of the organisation. This includes aligning the financial management with strategic and operational objectives. In particular it addresses the cyclical activities associated with finance such as budget and performance review, financial monitoring and control as well as how future investments may be planned.

It is particularly important when studying this module that a view external to that of the organisation is adopted, so that comparison of best and up to date practice are made.

Local conditions for financial management

Legal requirements, regulations, custom and practice, almost always influence financial management practices. It is not possible to be specific in such matter for the *Cambridge International Diploma in Management (CID) at Higher Professional Level*, as such regulations need to be addressed within the context of local financial working practices, be it national or multi-national. Tax and investment laws may differ in detail, as may regulations concerning financial control and audit. Whilst such practices may differ from country to country the principle concepts of all acceptable financial management situations have many common features. Such principles form part of all acceptable financial management systems and should therefore form an aspect of study for this core study module.

Finance in different types of organisations

It is highly likely that those studying the *CID in Management at Higher Professional Level* modules work in a range of backgrounds and have quite different management experience. Some may have experience of commercial organisations, some may be employed in not for profit organisations such as charities, and some may be in governmental organisations whose finance is allocated from taxes. These types of organisations may operate quite different financial management systems. However, the financial management principles are increasingly relevant to all such organisations in most Countries. Those studying this module will need to be aware of this.

Coverage of all the assessment objectives regardless of current employment

Candidates studying the *CID in Management at Higher Professional Level*, and specifically the module in *Financial Management*, need to be aware, that whilst their sections/departments/division/organisation may not be employing all the financial practices included in this module, they still need to understand them for this qualification. A future employer, for instance, where such practices are used, will expect a candidate presenting themselves for selection for a post who has a *CID in Management at Higher Professional Level* to have a sound grasp of the key points set out in the *Financial Management core module*. This is regardless of whether or not they use such practices in their existing role or organisation.

It is important that candidates studying this core module are fully aware of this point as in their assignments submitted for formal assessment they may well have to explain and justify why certain financial management functions or activities are or are not currently used. Such explanations allow a candidate to demonstrate their understanding of relevant concepts.

Also, by understanding such key concepts, candidates will come to understand the objectives for their *Diploma* studies. Such principles are important in all *CID in Management at Higher Professional Level* studies but it is perhaps in the area of *Financial Management* where most

challenge is experienced in this respect. Therefore, this concept may well be a starting point when studying this module.

Finance and other management functions/tasks

A further key aspect when studying this *CID in Management at Higher Professional Level* core module is to ensure that *Financial Management* is seen as an integral aspect of general management responsibilities and not as something that is undertaken by a finance department or the director of finance.

For instance, the candidate who authorises the payment or delay of invoices, overtime work or taking on additional staff, the use of private transport, the ordering of new stock, and so on, will make some impact on the flow of finance within their organisation. In exploring the efficiency and effectiveness of their part of the organisation the use of comparative financial data within and external to the organisation, month on month and year on year, are an important aspect of most manager roles.

It is sometimes common in organisations for general or non-financial managers, to believe the many facets of *Financial Management* to be removed from their general day-to-day activities. The study associated with this *Core Financial Management module* should help dispel such beliefs if they exist.

Again, it is of the utmost importance that students undertaking this module have a firm grasp of this concept from the start of their studies. This might well be a second point that is covered in the scheme of work.

Assessment Objectives are:

1. Identify the constituents of the financial planning process and how these are used in organisations
2. Monitor and control performance against budgets
3. Apply appropriate costing techniques as part of financial analysis
4. Plan and propose financial resource requirements for a department or project
5. Appraise capital investment proposals

RECOMMENDED PRIOR KNOWLEDGE

General principles

It will be assumed that a candidate presenting himself or herself for the study of this module has some working knowledge of financial statements although this may not be extensive. It is also assumed that the candidate has some knowledge of the current management of finance that is undertaken within their organisation. However, it is appreciated that some candidates may well have extensive knowledge whilst others have very little. A starting point in supporting candidates studying this module will be to establish the knowledge and experience base from which individual candidates start. Candidates with an extensive working knowledge of finance may well consolidate their understanding by supporting other candidates in their studies. However, this will depend on the culture of the learning environment in which such studies are being undertaken.

The candidate with extensive knowledge of financial management

There is a danger that a candidate with extensive knowledge may feel that they do not need to undertake the detailed study prior to developing their assignment/report that is to be submitted for assessment. Experience dictates that this is not always sound practice. There are times when such a candidate has 'pitched' their assignment at an inappropriate level or has seen their report purely in terms of '*cost management*' rather than in terms of '*management accountancy*'. Sometimes their report remains at the descriptive level rather than being one that forms a critique of current practice and that leads to recommendations for improved financial management within their organisation. The importance of this will need to

be explained to such candidates. It is also sometimes the case that such students have a tendency to write beyond the word allocation for a *CID module* report.

Access to financial documents and associated data

Whilst some background knowledge concerning financial techniques will be assumed, it is probably appropriate to ask candidates to explore what financial principles, documents, papers, processes and financial data they will be able to use from their organisations in their report/assignment. It may also be worth discovering what data is available on any organisation associated Internet site, although in both instances this may be better done when the candidate understands the nature and importance of various financial documents/approaches required whilst studying this module.

SUGGESTED TEACHING ORDER/SUMMARY OF SCHEME OF WORK (S of W)

Throughout the time of study it will almost certainly be necessary to reinforce aspects of financial understanding by iteration and repetition, therefore there is no hard and fast approach to covering the *Financial Management* Module specifications. It will also be necessary to take into account the financial experience of individual candidates. The following approaches are suggested for a candidate with limited appropriate financial management knowledge or experience at this level of study:

1	Cover the concepts and principles behind the <i>Financial Management</i> module as outlined in the brief introduction above.
2	Cover some of the basic principles concerned with cost and management accountancy to the extent that the candidate understands the nature of studies associated with this <i>CID in Management</i> module and the difference between the major aspects of <i>financial management</i> .
3	Address the importance of study of this area regardless of the nature of the candidate's current responsibilities and practices in respect of <i>financial management</i> and how such knowledge and understanding are important regardless of current employment/role.
4	Whilst acknowledging that different preferred learning styles will vary from candidate to candidate, it is still thought important from the start of their studies that candidates have an overview of the assessment objectives, as this will give poignancy to their studies.
5	It will be important for most candidates, from the start of their studies relating to this module, to have an understanding of the depth of study - this aspect sometimes causes difficulties for those both familiar with <i>financial management</i> as well as those studying it in depth for the first time.
6	It will also be important for candidates to realise that whilst the teaching approach adopted for the purpose of study may be a linear or a sequential one, there is considerable interconnection and indeed overlap between the five assessment objectives, their associated competence criteria and their related skills and knowledge.
7	It is also important that candidates are aware from the start of their studies of this module that it can be successfully completed without reference to other management functions within their organisation, for instance, strategic and operational management, HR management, marketing, information systems management and so on.
8	The order in which the assessment criteria are covered may well be determined by candidate's prior experience but for this Scheme of Work limited knowledge is assumed. Therefore, the order in which the assessment objectives are tackled is the order in which they are set out in the <i>Financial Management</i> module.

Some key principles and concepts when addressing the *Financial Management* module requirements

Tutors supporting candidates undertaking the module in *Financial Management* are asked to note the *CID in Management at Higher Professional Level 'Tutor Support Guide'*. The advice in this publication remains germane and sets out some key general principles as well as offering advice concerning the *Financial Management* module. The following points are particularly important:-

1. The Module is concerned with real working practice and requires students to have a sound numerical understanding and awareness of the impact of financial planning upon the work of their organisation.
2. This subject is difficult to teach without using many case studies and sample and other associated documents.
3. Examples need to be well prepared so that the learning points can be made on completion.
4. It is not advisable to use random figures as this often negates the key principle of applied *management of finance*.
5. Candidates need to be aware of financial and accounting terminology and correctly use this in their calculations and when presenting their report/assignment.
6. There are two main areas in this module. They are the numerical calculations (and the principles on which these are made) and financial awareness, which is an understanding of the implications on those same numerical calculations. Managers at this level need to have an understanding of the significance of performance figures as well as being able to set up calculations and present figures within a conventional accounting style. Students will only develop such understanding and skill if they undertake the development of worked examples and critique financial documents. Therefore it will be necessary to have a significant number of sample statements on which students may practise their financial management skills/calculations.
7. When developing a financial critique at this level of study, students need to not only comment on what is current practice within the organisation that they are studying but also to develop in depth knowledge to the extent that clear recommendations develop in relation to:
 - what is not, but might be done
 - how what is done could be done better
 - and possibly what is currently done but could be discontinued
8. For this module, especially, to capture the imagination and enthusiasm of the students, it is important that they can see the purpose of the calculations they are doing and how they can use these to identify key financial issues in relation to the operational and strategic management of their organisation. It is probably not sufficient for students to just complete the calculations.

LIST OF RESOURCES

The resources listed in the *CID in Management at Higher Professional Level* syllabus booklet are still both relevant, appropriate and sufficiently up to date to be of value to candidates and their tutors.

In addition, it may well be appropriate to refer to a range of appropriate Internet web sites. These might well include The Times 100 website (<http://www.tt100.biz>) In addition sites such as 'Biz-ed' contain numerous downloadable resources (not just for finance/accounting but

also other aspects of management). In addition it is likely that comparative data that can be used when developing a financial critique can be obtained from websites relative to the sector of operations, local professional association websites such as Chambers of Commerce, and even professional association websites.

An additionally useful book for some aspects of this module, particularly for students who do not have very much experience of *Financial Recording and Preparation*, Robinson and Wood, Financial Times – Prentice Hall (2001) ISBN 0273639803. The value of this book is its practical, easy to follow nature and some of the examples it contains.

A book that is useful in parts, such as 'financial controls', 'depreciation' and so on, for this level of study is *Practical Accounting*, Benedict and Elliott, Financial Times – Prentice Hall (2001), ISBN 0273646605. However, there is a danger for the unwary student that in considerable measure this book goes into aspects of accounting that do not form part of this module.

The important point in selecting and using resources is that they should be for general managers rather than those for aspiring financial specialists.

UNIT 1: Identify the constituents of the financial planning process and how these are used in organisations

COMPETENCE CRITERIA		EXPLANATION OF COMPETENCE CRITERIA	SUGGESTED TEACHING ACTIVITIES	RESOURCES
1.1	Identify the purposes of financial planning and budget preparation	<ul style="list-style-type: none"> financial measures of company performance 	<p>The start point for this aspect of the <i>Financial Management</i> module can be addressed by exploring the overall <i>strategic and operational objectives</i> relating to the <i>budgetary time frame</i>. Therefore a place to start may be examination of the <i>Pyramid of Purpose</i> – this should allow students to identify, (in relation to their own organisations):</p> <ul style="list-style-type: none"> - <i>Vision/mission</i> and <i>values</i> relating to their own organisation - The <i>aims</i> and <i>purposes</i> - The <i>objectives</i> - <i>Targets</i> and day-to-day activities. <p>Sometimes this is known as the '<i>MAST (Mission - aims - strategies - targets) analysis</i>'. Candidates should come to understand from undertaking this activity that it is a <i>precursor to any budgetary planning</i> activity although for many organisations this is in fact an on-going process throughout the year rather than something that is undertaken only at a period of time. It is at a period of time when the budgetary process comes together.</p>	<p>Throughout this unit a useful reference is <i>Practical Accounting</i> – in particular Section 32 (Planning and control: budgeting).</p> <p>Reference is also appropriate to aspects of <i>Financial Accounting</i></p>

1.1		<ul style="list-style-type: none"> • setting of the financial objectives 	<p>Through discussion candidates should come to understand that <i>the purposes of 'budgets'</i> are:</p> <ul style="list-style-type: none"> - <i>Planning</i> and setting <i>financially related objectives</i> - <i>Controlling</i> and <i>monitoring</i> activities within the organisation - <i>Communicating expectations</i> in financial terms to all concerned - Co-ordinating between resources, outputs and targets for different parts of the whole organisation - Motivating - the setting and management of budgets (and subsequent adherence) can be an important influence on staff motivation at all levels <p>At this stage of studying the module candidates can usefully undertake a critique of their own organisation to assess the strengths and any deficiencies in current practice against these ideals or at least how they are manifested within their organisation. This can be undertaken for a specific project if the candidate does not have access to the whole of their organisations budgetary processes.</p> <p>They can also seek information concerning how well the linkage between fiscal and strategic/operational management are co-ordinated. This highlights the linkages between the various functions of managing the organisation.</p> <p>The outcomes of this short critique can later be incorporated into candidate's assignments that will be submitted for assessment and should give poignancy to the activity.</p>	
-----	--	---	---	--

1.1		<ul style="list-style-type: none"> presenting the business plan in financial terms 	<p>Asking candidates to explore their own organisations for evidence of this should develop the concept of a '<i>rational budgetary process</i>'. They should be seeking:</p> <ul style="list-style-type: none"> - SMART operational targets that derive from their <i>MAST analysis</i>, which allow financial objectives to be established in a rational manner. These may well be influenced by a recent PESTLE assessment/analysis. - Ideally this should lead to the identification of the desirable level of performance expected of each manager and their department and what they will individually have to monitor and control during the accounting period - This should also lead to an understanding of 'responsibility accounting' and 'responsibility centre/s' that may contain 'cost centre/s', 'revenue centre/s', 'profit centres' and 'investment centres' <p>The outcomes of this should lead candidates to see that such a rational model locates budgets firmly as a means of organisational control, by making managers accountable within their organisation for the resources their projects, areas or teams consume and the output that they generate.</p> <p>They should understand that this is a powerful model and is the basis of most budgetary systems in practice. It also leads to <i>management by objectives (MBO)</i> which is often a preferred approach although not always so obvious as it might be.</p> <p>Yet again this could contribute to their assignment to be submitted for assessment.</p>	
-----	--	---	---	--

1.1			<p>It is almost certain in a commercial organisation that the starting point for budgetary planning is likely to be a PESTLE analysis that leads to a <i>marketing plan</i> that is set within the overall context of the MAST analysis.</p> <p>This should lead to a <i>rational business plan</i> that contains <i>financial objectives/targets</i> that are based upon a reasoned argument.</p> <p>It is suggested that candidates not only investigate such an approach within their own organisations but also explore practice in similar organisations by making use of the www. Such research leads to the idea of <i>benchmarking</i> which may be important when establishing Strategic/operational/financial objectives and fits in with the concept of the <i>double management control loop</i>.</p> <p>Most organisations have an <i>annual budgetary planning cycle</i>. The timing of this is often critical but will always have associated strengths and weakness. Candidate should be asked to consider the purpose of budgets (see above) and assess how well the timings of the various activities within their organisations fits in to the time frame set for budgetary developments.</p>	
-----	--	--	--	--

1.1		<ul style="list-style-type: none"> • aiding the planning of annual operations • co-ordination of organisational objectives 	<p>In so doing they will also have to take into account the following:</p> <ul style="list-style-type: none"> - <i>Preparation</i> – in all its components including trial balances and so on - <i>Collation and iteration</i> – within departments and across the organisation – (maybe at divisional and plant level) - <i>Authorisation</i> from say the organisation’s budget committee - <i>Implementation</i> <p>Through undertaking this candidates will come to understand the time, effort and energy, as well as emotion, which is often associated with such budgetary processes. They will also help them realise that some activities within their operational areas may be seriously adversely influenced unless the timing is appropriate.</p> <p>It will depend on the size of the organisation what is the focus of study by each candidate but it is often the case that a <i>budgetary officer</i> is appointed to assist departments to develop their budget. This same person can also be tasked with the co-ordination of budgets across the organisation or between the various divisions of the organisation. The need to investigate how such co-ordination is undertaken in their organisation, its effectiveness as well as its cost, in time and emotion, could be assessed for associated strengths and weaknesses. (In other words the candidate assesses the extent to which there is 'joined-up' strategic/operational/fiscal planning within and across their organisations). The outcomes of this should further lead to an understanding of interconnectivity throughout the organisation.</p>	
-----	--	--	---	--

1.1		<ul style="list-style-type: none"> controlling and evaluating performance 	<p>Yet again such a critique can for an important aspect of the candidate's assignment be submitted for assessment.</p> <p>The controlling and evaluating performance here relates to financial planning and company performance. In other words is:</p> <ul style="list-style-type: none"> - the <i>right thing being done</i>, - is it being <i>done in the right way</i> - at the <i>right time</i> and - how is it all managed so that there is <i>joined up thinking and action</i> - as well as <i>all managers</i> working to the same overall plan and - <i>timings</i>, in - an <i>efficient</i> and - <i>economic</i> manner <p>The investigation and subsequent development of a <i>SWOT analysis in respect of the planning and control activities</i> will again lead to an understanding of an important aspect of fiscal management that should also include the concept of the <i>budget control loop</i>.</p> <p>Whilst undertaking this assessment candidates can usefully be asked to research the counter-effectiveness of too many controls, or too tight controls or inappropriate control that stifle the core purpose of the organisation. Such an assessment should be a feature of their assignment.</p> <p>The candidate's investigation should also allow them to see the importance of people management throughout the whole process so that morale remains high and staff are committed to the jointly developed and agreed plan because they have been involved in the budgetary aspect for which they will later have managerial responsibility.</p> <p>This final point should not be overlooked, as it is a key aspect to the later understanding of the operational/fiscal plans and their subsequent monitoring and controlling of the budget.</p>	
-----	--	--	---	--

1.2	Identify how the components of the budget cycle provide the structure for short to medium-term financial planning within an organisation	<ul style="list-style-type: none"> • organisational annual budget cycle • stages in budget preparation • budget control mechanisms within an organisation 	<p>This aspect of the module can best be undertaken by first developing an understanding of the theoretical model or ideal. This is then used as a benchmark against which the candidate can investigate current practice in his or her own organisation or the one that is to be the focus of their assignment.</p> <p>The components of this aspect of the Unit can best be undertaken concurrently with those outlined above.</p> <p>This is an opportunity for candidates to represent their findings in a diagrammatical way as well as in words. Such an approach allows clear communication to all those involved what is expected of whom, by when and most importantly how the various budgetary activities across the organisation are co-ordinated to subsequently form a <i>unified fiscal plan</i>.</p> <p>An aspect that should be explored, through academic and empirical research is the style that is adopted within their organisation that is a focus of study. For instance the <i>openness or closed nature of budget preparation</i>; is it a <i>participative</i> process, is it <i>top-down</i> or <i>bottom up</i>; what degree of <i>involvement</i> is there by those who must later implement and manage the budgets in terms of meeting the requirements, control of the budgets, variance correction and so on.</p>	
-----	--	--	--	--

1.2		<ul style="list-style-type: none"> • budget preparation as a reflection of management style • zero based budgeting (ZBB) 	<p>The outcomes of this will very much relate to the <i>dominant culture</i> that prevails within the organisation but it should lead to some form of assessment by the candidates concerning its <i>hindrance or help throughout the budgetary construction and management control processes</i>.</p> <p>Candidates should also explore <i>Zero Based Budgeting (ZBB)</i> within the context of this module. They will be unable to do this unless they first have a sound understanding of the processes as well as associated weaknesses and strengths of the incremental budgeting and possibly rolling and flexible budgeting.</p> <p>A useful starting point here is for candidates to construct a chart/table of comparisons that describe the characteristics of each main type of budgetary process and list the associated strengths and limitations. From this they can make an assessment of when in their own organisation it might be appropriate to use ZBB and when not and why.</p>	
-----	--	---	--	--

1.3	Identify the underlying assumptions within financial forecasting	<ul style="list-style-type: none"> • Importance to the organisation of financial forecasting • hierarchy of assumptions • use of spreadsheets in creating assumptions statement(s) 	<p>The importance of the use of ICT and specifically electronic spreadsheets should be at the heart of this aspect of study.</p> <p>Candidates also need to develop understanding that a budget is based upon certain <i>key assumptions</i>. The key assumptions will very much depend upon the type and nature of the organisation that is the focus of their research. Common assumptions relate to time, costs of inputs/overheads, market forces and so on. Candidates will also need to understand the importance of these when monitoring and controlling fiscal plans. Therefore as well as understanding them for budgetary construction they need to be aware of them when setting up their <i>fiscal management control 'loop'</i> processes.</p> <p>With the above in mind candidates should be tasked with exploring the basis on which the budgetary documents have been constructed. This same research is equally applicable to incremental, rolling, flexible or ZBB and will relate to their earlier research concerning ZBB budgeting. (See 1.2)</p> <p>Candidates can also explore the '<i>knock-on</i>' effect resulting from a change to one of these assumptions. This may be associated with 'timing', level of activity or so on.</p> <p>The impact of such changes can be demonstrated on a pre-programmed electronic spreadsheet. Therefore, as well as investigating such assumptions it would be appropriate to ask each candidate to investigate, even at this stage, the '<i>what-ifs</i>' associated with changes to the 'hierarchy of assumptions'.</p>	
-----	--	---	--	--

1.4	Identify the projected financial statements within the financial planning process, be able to prepare these statements and show how they reflect the projected performance of the organisation	<ul style="list-style-type: none"> • budgeted profit and loss (P & L) account • budgeted cash flow statement • budgeted balance sheet • all financial terminology used within these budgets 	<p>Outcomes from these activities, in relation to P & L accounts, cash flow statements and balance sheets, should include:</p> <ul style="list-style-type: none"> - the purpose of these fiscal documents - their methods of construction - the nature of their inputs - their limitations, and - their inter-relationship <p>Therefore it is best when undertaking research in this area that the same data sets are used throughout.</p> <p>Ideally the assumptions referred to earlier (1.3) should also relate to these same documents.</p> <p>It might also be more logical to explore aspect of Unit 3 below before undertaking detailed work on this aspect of unit one.</p> <p>Candidates may be able to build on work undertaken in the CIE Professional Level Module, Financial Management, but if this has not been undertaken they should be introduced to the following by reference to pre-prepared documents P & L accounts:-</p> <ul style="list-style-type: none"> - The purpose of trading and P & L accounts - The format of a trading and P & L account - Horizontal and vertical trading and P & L accounts - Information required before preparing of the trading and P & L accounts - Effect on the capital account - The vertical layout for P & L accounts - Model layout on final accounts 	<p><i>Practical Accounting</i> Interpretation of financial statements Section 21 and Cash flow statement Section 43.</p> <p>Financial Accounting Sections 4, 5, and 6</p>
-----	--	---	--	---

1.4			<p>Similarly for balance sheets:</p> <ul style="list-style-type: none"> - definition and content of a balance sheet - balance sheet layout - preparing a balance sheets (horizontal layout) - vertical style balance sheets <p>Associated with the same activities to which the above P & L accounts and balance sheets refers candidates should be taken through the cash flow over the same accounting period.</p> <p>This should include:</p> <ul style="list-style-type: none"> - The use of spread sheets - The need for 'drawing' or investment of cash that is not working - The overall managerial assumptions relating to cash management over the accounting period that is based upon past experience <p>It would also be appropriate to relate to these documents the previously referred to hierarchy of assumptions, management control, and any subsequent significant variance analysis referred to below.</p> <p>Having explored the above with data provided by their Centre candidates should be asked to either explore, analyse and comment on data from their own organisation or if this is considered too sensitive or challenging to obtain then they should make use of data from a case study. However, it should always be stressed that the preferred action is to use data from their own organisations in such an applied course of study as the <i>CID in Management at Higher Professional Level</i>.</p>	
-----	--	--	---	--

1.5	Communicate the final budget plan (or sections of it) to those who need it in order to plan their activities/operations within the appropriate financial period	Putting all the above together in a manner that is understandable to the recipients	An exploration of methods of communicating the budget plan is appropriate here. It is important to differentiate between the recipients of the budget and what use they will make of it. Distinguish between strategic and operational implications.	
-----	---	---	--	--

Summary		<p>Comment. This is a long unit of study but one that is central to the understanding of the <i>Management of Finance</i>. When covering it in a teaching situation it is very easy for candidates of any level of experience to see it in a sequential way – they should not. At this level of study it must be viewed in an holistic and interconnected way. Each aspect being seen to be interrelated to another and that changes in one aspect lead to subsequent changes in another as well as to related aspects of management.</p> <p>It is suggested that at the end of each component, that those supporting candidates ask them to identify what impact/influence the current component of study might have on other aspects of management and finance within the organisation within the same and any subsequent accounting period.</p> <p>Study later on, as part of this module, also explores the notion of fiscal management beyond an immediate accounting period. Therefore, candidates from the start of their studies in this aspect of general management should be encouraged to make connections with the medium and longer term aspects of management – for instance the obtaining, using and paying back of capital. This is quite easy to do if candidates are again referred back to their <i>MAST analysis</i> undertaken as part of the earlier activities.</p> <p>Candidates need to be reminded throughout their studies of the holistic nature of management at this level and whilst concepts may be covered in a sequential way for ease and effectiveness of teaching it should not be perceived as being this way in practice. It is such understanding that marks out general management in the <i>CID in Management at Higher Professional Level</i> from specialist management and study at lower levels such as the <i>CID at Professional Level</i>.</p>	
---------	--	---	--

UNIT 2: Monitor and control performance against budgets

COMPETENCE CRITERIA		EXPLANATION OF COMPETENCE CRITERIA	SUGGESTED TEACHING ACTIVITIES	RESOURCES
2.1	Identify types of organisational control systems and how they operate within organisations	<ul style="list-style-type: none"> • strategic, operational and management control systems • feedback reporting systems • significant variance analysis • taking remedial action 	<p>Central to this aspect of management is the concept of the <i>management control loop (MCL)</i> and its various manifestations.</p> <p>This may be used at <i>strategic, operational or activity level</i>. Candidates need to be able to apply such principles at all these levels from the construction and application of such principles to the <i>assessment of the cost effectiveness</i> of such processes.</p> <p>It is suggested that candidates are reminded of the <i>components of a MCL</i> and the importance of the various components. Key outcomes should be:</p> <ul style="list-style-type: none"> - the <i>critical nature of monitoring</i> performance against that which is/was intended - the appropriateness of the <i>measurement/s</i> in terms of cost effectiveness - the <i>collection, collation and comparison</i> of data in a <i>timely, effective and efficient</i> way and <i>how this is communicated</i> to those who are to make managerial use of it - the acceptance of setting such <i>tolerances</i> so that <i>oscillation</i> is avoided - selecting the appropriate <i>frequency</i> of measurement and reporting - the importance of the 'double' loop so that the overall performance is compared with similar operations outside the organisation in such a timely manner that competitive edge is retained (or not). 	Part G The Control Function p447 in particular. See also Part H for 'Computers in accounting'.

2.1			<p>Candidates need to be able to <i>analyse the associated strengths and weaknesses of such systems</i> at various levels within their organisations. This should not only address the fiscal aspects of such systems but again must adopt <i>an holistic approach</i>.</p> <p>For instance how do such systems <i>impact on the morale and motivation</i> of those involved at the activity level – is it too oppressive and stifles initiative or is it too lax and treated in a light hearted manner? Such conflicts are an important aspect of study of this aspect of management.</p> <p>Similarly candidates need to take an organisational perspective in relation to the <i>co-ordination between responsibility centres</i>. It is often the case that major variances in one centre will have an impact on other responsibility centres throughout the whole organisation. Again candidates need to be able to adopt this holistic position at this level of study rather than see fiscal management in a fractional way.</p> <p>Equally candidates should be able to explore <i>control systems for their flexibility</i> so that the organisation/sub-organisations can adapt to changed circumstances. Such aspects as flexibility and the organisation's response to changes is an importance aspect of management accountancy as opposed to 'cost accountancy'.</p> <p>Also candidates will be unable to fully understand control unless the <i>concept of variances</i> is covered. What is an acceptable variance, how is it compared in a time related way - say day on day, month on month, year on year and so on, will vary from organisation to organisation and maybe task to task. Similarly how <i>ICT</i> is harnessed to support fiscal management in this respect will vary.</p>	
-----	--	--	--	--

2.1			<p>(Whilst concepts such as 'control accounts' and 'reconciliation ledgers' are important financial management documents these are more concerned with accounting rather than general management and do not form part of this area of study).</p> <p>The importance of <i>people in such control processes</i> must also be explored in this aspect of study. In particular the role of the person receiving the variance reports. The importance of the <i>analysis of the data</i> in order to identify the <i>cause of variances</i> and their ability/authorisation to make appropriate <i>adjustments to avoid such variances</i> occurring again. They may also have to assess the impact on the whole of the organisation's financial plan.</p> <p>In many organisations the importance of <i>information systems architecture</i> will play a key part in the whole of the process and it may be entirely appropriate to include this as part of the critique associated with this module of study.</p> <p>It is therefore suggested that after candidates spend time exploring the theoretical concept of control, they should identify what it is that they will be seeking in an efficient, effective and economic financial control system. This can be undertaken through discussion of model approaches and real situations.</p> <p>Candidates should then be tasked with undertaking a critique of their own organisations to identify associated strengths and weaknesses. Yet again this can be incorporated into their assignment to be submitted for assessment.</p>	
-----	--	--	---	--

2.2		<ul style="list-style-type: none"> • financial terminology • significant variance analysis 	<p>In undertaking such analysis candidates will not only be required to utilise the appropriate financial terms but also where appropriate the correct statistical terms/concepts/approaches. Use of graphs, tables, chart and diagrams should be encouraged as effective means of communicating ideas as well as outcomes from analysis.</p> <p>In undertaking variance analysis the idea of '<i>significant variations</i>' that possibly have <i>profound impact on the fiscal management</i> of the organisation should be addressed. This may relate directly to one or more of the major assumptions made when constructing the balance sheets, P & L account of cash flow forecast. It may for instance be the price/cost of inputs and candidates should be asked to explore the knock-on effect of this to the three financial documents and possibly the pricing structure of services or good/products. Again, this is best done by using a worked example and having the associated spreadsheets to hand in an electronic format so that the impact of such changes can be readily demonstrated.</p>	
-----	--	--	--	--

		<p>Summary. Within the scope of this module it is not possible to cover all aspects of control and monitoring processes associated with fiscal management. What is sought is an understanding of the concepts of:</p> <ul style="list-style-type: none"> - <i>timeliness</i> of collection and comparison and corrective actions - <i>comparing like with like</i> in respect of activity levels as well as cost periods - <i>frequency of comparisons</i> - fiscal <i>impact</i> and inter-relatedness - use of <i>relevant data</i> - <i>use of ICT</i> and variance reporting - <i>costs</i> associated with data collection, collation, analysis and storage - <i>skills in design of fiscal information architecture</i> that is fit for purpose and economic to implement. <p>Candidates should also be assessing their own organisation throughout the development of their knowledge and skills in these areas. The outcomes of their assessments should ideally lead to a critique that can be used as part of their report/assignment submitted for assessment.</p>	
--	--	--	--

UNIT 3: Apply appropriate costing techniques as part of financial analysis

COMPETENCE CRITERIA		EXPLANATION OF COMPETENCE CRITERIA	SUGGESTED TEACHING ACTIVITIES	RESOURCES
3.1	Apply marginal costing analysis, by taking into account the relationships between cost, profit and volume	<ul style="list-style-type: none"> • fixed and variable costs • unit contribution 	<p>Most candidates will have already come across the concept of contribution costing in earlier studies such as the <i>CID in Management at Professional Level</i>.</p> <p>However, it may be necessary to revise the theoretical concepts associated with <i>fixed and variable costs</i> (sometimes referred to as marginal costs) and at the same time explore their <i>relative strengths, limitations</i> and where appropriate the various uses.</p> <p>Most candidates have probably met before the idea of <i>unit contribution</i> but the theoretical idea may also have to be revised. As outcomes candidates should be able to appreciate that the marginal cost approach seeks to avoid problems by calculating the 'contribution' made by each product or service towards the overheads (and profit if appropriate) of the organisation. Candidates should understand that this approach provides a more flexible approach to <i>explaining the relationship between price, cost and volume</i>.</p> <p>One way to achieve this is to work through case study examples and subsequently discuss their relative merits and disadvantages.</p>	

3.1			<p>Yet again candidates are likely to have encountered the concept of <i>break-even analysis</i>. Nevertheless the importance of it requires that they clearly understand its <i>several applications</i>.</p> <p>An aspect that can usefully be covered is using a computer based model and to change the inputs so that the <i>BEP</i> changes. This enables candidates to see how such analysis may support decision-making concerning levels of activity as well as the importance of financial values placed on the outcomes of that activity.</p> <p>Such an approach can also be used in a context of <i>assessing risk</i> where it is important to know how far volumes can fall before losses are incurred or indeed the converse – to what degree volumes must rise to avoid losses. Associated with this, candidates should have a working knowledge of the '<i>contribution margin</i>'.</p> <p>It is also as well to cover the principles and concepts associated with <i>BEA in a graphical presentation</i> where it is easy for candidates to understand the relationship between <i>cost:volume:profits</i>. Concurrent with this, it is possible to clearly demonstrate the '<i>margin of safety</i>' and '<i>stepped costs</i>'.</p> <p>Candidates need to understand that BEA, whilst important, is only one aspect of price setting. This can be brought out in discussion and can also be used to illustrate that it is <i>only 'correct' if the inputs remain constant</i>, the output levels/sales are as predicted. Yet again the importance of monitoring the level of activity can be highlighted by the use of ICT.</p>	<p>Throughout this aspect of the unit it may be useful to refer to Financial Accounting, in particular Chapter 21, as there are some sample 'data sets' upon which calculations can be based.</p>
-----	--	--	--	---

3.2	Apply absorption costing analysis by taking into account the division of costs into direct and indirect	<ul style="list-style-type: none"> • identifying direct and indirect costs within organisations and for products/services • assigning costs to different cost centres, services and products • calculation of overhead recovery rates for different cost centres • activity based costing • uses and limitations 	<p>The revision of the theory concerning <i>costs and their limitations</i> should form the start point for this aspect of fiscal management.</p> <p>It is suggested that candidates again base their research on the organisations that are the focus of their studies. The research may be on <i>products or services</i> (or increasingly a combination of both) that are important to the core purposes of the organisation. They should be asked to <i>categorise all direct and indirect costs</i> associated with such products and services. It is suggested that this is best presented as a table.</p> <p>The candidates should investigate two key aspects; They are the <i>allocation and apportionment of costs</i>. The <i>basis for these decisions</i> should also form part of their research.</p> <p>Candidates will need to understand the importance of <i>assigning costs to various centres</i> as well as exploring the various approaches that this may take. And in so doing they should develop an understanding of some of the challenges associated with the various approaches.</p> <p>Activity based costing (ABC) as well as the concepts of cost and activity drivers is yet again a term with which candidates may be familiar. However, it best revised. The concept of activities and outputs being related to the generation of costs is key. It is possibly a more soundly based and possibly <i>more easily controlled</i> approach and candidates should understand this. However, the <i>financial and administrative implications</i> should be explored as should the associated <i>advantages and limitations</i> – particularly with the mapping of associated activities as well as designing and operating such a system. These tasks should not be underestimated in terms of costs and time.</p>	
-----	---	---	--	--

3.2			It would be best to demonstrate the associated <i>ABC calculations</i> that relate to a data set, ask candidates to undertake similar calculations on a different data set and then to identify the challenges with implementing this system as well as identify its advantages in terms of costs. The final point would be to ask candidates to investigate applying this approach in a work setting where it can be applied to either product or service or a combination of the two.	
-----	--	--	---	--

UNIT 4: Plan and propose financial resource requirements for a department or project

COMPETENCE CRITERIA		EXPLANATION OF COMPETENCE CRITERIA	SUGGESTED TEACHING ACTIVITIES	RESOURCES
4.1	Identify how to align financial planning to the strategic/operational aim and objectives of the project or the department	<ul style="list-style-type: none"> the financial purpose and objectives of the project or department 	<p>This unit brings together all the work done so far. It is now that the candidate uses the information and knowledge acquired to put together a proposal for the future. There is no new learning here in terms of financial terminology or techniques, rather the aim is to help candidates to develop forecasts for financial expenditure and to justify these. This also involves analysing risks and assumptions. Costs need to be apportioned clearly and control mechanisms put in place.</p> <p>As stated earlier, this module is about financial management in a general management context and what is important here is that clear links are made between the financial proposal and other aspects of the project or department. So, how will this proposal deliver the objectives for example? What are the benefits of the proposed costs?</p>	
4.2	Assess financial opportunities and constraints associated with the project/departmental plan and identify how these influence planning	<ul style="list-style-type: none"> sources of finance, payback periods and risk factors 		
4.3	Present a developed financial proposal for a specific project or department	<ul style="list-style-type: none"> presentation of a proposal for future expenditure / budget 		

UNIT 5: Appraise capital investment proposals

COMPETENCE CRITERIA		EXPLANATION OF COMPETENCE CRITERIA	SUGGESTED TEACHING ACTIVITIES	RESOURCES
5.1	Appraising the viability of investments through different methods identifying the advantages and disadvantages of each		<p>Pre-amble to the study of this unit.</p> <p>For the most part general managers, who hold middle ranking posts in large organisations, are unlikely to have responsibility for securing capital and projecting approaches to capital investments. Such detailed planning and management is likely, but not always, to be the province of the specialist financial officers in the organisation or officers working at a strategic level of management.</p> <p>In smaller organisations, most of this detailed work associated with appraising capital investments, and the related calculations will be undertaken by the organisation's bank or finance house. Indeed in the age of powerful computer modelling it is highly likely that such calculation will be undertaken by the use of ICT.</p> <p>In all the instances above, this does not absolve the associated general manager from needing to understand the principles, concepts and in outline, how associated calculations are approached or handled. Indeed, it is argued that it is important that the general manager is fully conversant with such aspects of fiscal management. This will allow such a manager to participate in meaningful discussions from an informed position as well as participate in the decision-making processes of the organisation.</p>	

5.1		<ul style="list-style-type: none"> • cash flow time periods 	<p>It is also argued that the more managers are aware of what is happening in respect of activities that may impinge on their role and responsibilities, the more they are likely to make decisions that enhance the quality of their operations rather than being at the mercy of other people and their decisions.</p> <p>In considering these aspects of <i>Financial Management</i> it may be necessary to address these points first so that candidates are aware of the rationale for the inclusion of this aspect of finance in this general management qualification at Higher Professional Level.</p> <p>It may also justify to candidates some aspects of theoretical study that will allow them to subsequently undertake meaningful research and investigation within their organisations and to critique the approaches currently employed.</p> <p>In developing understanding of this unit it is perhaps best if the concepts are explored in a general way so that the scope of the unit is understood in an holistic way rather than it being addressed in a piecemeal fashion.</p> <p>The general principle is that 'cash must be worked hard' – <i>'slack cash means' lost income</i>. Cash may be held as stored/stock, WIP, goods held. This is easily understood. What is not always understood is that this represents cash that is idle – it is doing nothing to enhance profits – indeed it may be doing quite the reverse. Therefore, candidates should be able to explore the use of 'cash' in whatever form to see that it is being worked hard. As part of this, it would be appropriate to explore the management of <i>debtors</i> and <i>creditors</i>. If payments are being made before debts are collected (or accounts settled) there is likely to be financial problems as the organisation is providing resources free of interest to other organisations.</p>	
-----	--	--	---	--

5.1		<ul style="list-style-type: none"> • opportunity or incremental cash flows 	<p>So in this respect a general manager must ensure that resources, and in particular capital/cash is being utilised to full advantage for their organisation.</p> <p>In respect of cash flow also see concepts such a 'payback period' below. Candidates should be tasked with investigating where cash/capital is within the organisation. The concepts outlined above should form the basis of this.</p> <p>It is normal to have in the cash flow statement over the accounting period, a clear notion of when <i>finance will be needed to meet certain obligations</i> and when <i>cash will be available to earn interest</i> – even if only over a short period. Money in hand/cash at bank is again not being worked hard. Therefore it is important that managers ensure that finance is available only when needed and that any surplus, say from early settlement of accounts, is appropriately invested.</p> <p>Also see 'payback' period and the implications of any early settlement of long term loans (in general terms loans for more than one year). It is appropriate to ask candidates to investigate cash flow management for short, medium and long term management in order that they understand such concepts.</p>	
-----	--	---	--	--

5.1		<ul style="list-style-type: none"> effects of taxation and inflation projection on cash flow forecasts 	<p>In such an award as the <i>CID in Management at Higher Professional Level</i> it is impossible to know of the tax laws pertaining to all Countries, but what is certain is that there will be taxes of one form or another. Therefore, it is entirely appropriate for a candidate to develop a résumé of these as they relate to their organisation and in particular as they impact on the use and flow of cash over an accounting period and beyond. Just as the cash flow calculation the need to meet predicted requirements such as salary and interest payments, settle utility bills and payments on account this should also reflect the need to meet tax obligations. In the UK this may be corporation tax, Value Added Tax, employers' National Insurance contributions and so on. General managers also need to be aware of the <i>time-flow implication of these taxes</i>, as they are not all made during the period in which they have been incurred – for instance corporation tax. Some may have to be made '<i>on-account</i>' and so on, but local regulations will prevail.</p> <p>Part of the candidates' research should focus on how such legal obligations are dealt with in their own organisation and assess the impact that this has on the organisation as a whole as well as cash availability to finance their operations.</p> <p>Candidates should also be aware of <i>the impact of inflation</i> on fiscal management. This should be both in the short and longer term and in particular relate to obtaining and paying back capital. (See reference above)</p>	<p>Practical Accounting p753 for inflation (see associated calculations)</p>
-----	--	---	---	--

5.1		<ul style="list-style-type: none"> • accounting rate of return (sometimes referred to as Annual Accounting Rate of Return or AARR) • payback period 	<p>When exploring or appraising capital expenditure one approach is to look at 'profits'. The <i>'accounting rate of return' (ARR)</i> is one such way. In this approach the <i>ARR is calculated by expressing as a percentage the product of the average annual profits being divided by the average investment</i>. Candidates may have to test this out on a data set and later explore its use, or not, in their organisation.</p> <p>Another method that may be used during appraisal is what is referred to as the <i>'Payback method'</i>. This is a quite simple approach and is often used by organisations in their <i>appraisal of capital expenditure</i>. It is often used at times when the organisation may be experiencing cash flow problems or when <i>interest rates are particularly high</i>.</p> <p>This method is used to compare the <i>time that it will take to recover the original cash outlay</i> from the stream of cash that proceeds from the investment. Candidates should be able to see that when choices are presented concerning which of a number of projects should be undertaken then this is a valuable approach to take.</p> <p>It is again suggested that candidates undertake a simple calculation to see this in practice.</p>	<p>Practical Accounting p 468 (Calculations included)</p> <p>Practical Accounting p 467 (Calculations included)</p>
-----	--	---	--	--

		<ul style="list-style-type: none"> • net present value (NPV) • internal rate of return • weighted average cost of capital 	<p>The principle of discounted cash flow is included in the calculations associated with <i>NPV</i>. Candidates should undertake a simple calculation (see reference) and explore why, if the calculation indicates positive it indicates, from a financial point of view, that the associated project is viable. Again candidates should understand that such an approach is often used when making choices between a range of projects. As such there will be times when the outcomes from such calculations will impinge on candidate's operational areas. They should therefore investigate its use, or 'non use' within the organisation that is the focus of their research.</p> <p>Candidate should understand that this approach (<i>IRR</i>) differs from NPV in that the expected <u>rate of return is not known</u>. However, the associated calculations (see p 470/1) will allow a managerial judgement to be made as to whether <i>the rate of return</i> is adequate. It may also be worth reminding candidates that many large organisations, and indeed investors in the organisation, will set levels above which return on capital used will be expected.</p> <p>It is possible that from time to time <i>different sources will be assessed/used for the cost of capital</i>. This may be to resource a project over a protracted period of time. During this time there may be <i>different costs – or interest rates</i> – there may be different payback periods because of the time before 'earnings' are apparent from the project. In appraising the 'cost' of capital or appraising when capital should be obtained it will be necessary to calculate to a common set of parameters.</p> <p>Candidates may be asked to develop their own scenario of how this may work in their own organisations. They should come to see that such calculations are aimed at working cash hard and avoiding slack in capital/cash management.</p>	<p>Practical accounting p469 (Calculations included)</p> <p>Practical accounting p470/1 (calculations also included)</p>
--	--	---	--	---