

INTERMEDIATE (IPC) COURSE

STUDY MATERIAL

PAPER : 3

COST ACCOUNTING AND FINANCIAL MANAGEMENT

Part – 2 : Financial Management

MODULE – 1



BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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A WORD ABOUT STUDY MATERIAL

Financial Management has acquired a critical significance now-a-days, due to liberalization, privatization and globalization. The study of this important subject opens new opportunities for Chartered Accountancy students. Therefore, students need to know the principles and practices of Financial Management and how these maybe applied to any business entity.

This study material provides the basic concepts, theories and techniques relating to Financial Management and deals with conceptual theoretical framework. It has been designed having regard to the distance learning students. The students are expected to cover the entire syllabus. The main features of this study material are as under:

- The entire syllabus has been divided into seven chapters.
- The chapters have been grouped into two modules
 - ◆ **Module-1 consisting of four chapters namely:**
 - Chapter-1: Scope and Objectives of Financial Management
 - Chapter-2: Time Value of Money
 - Chapter-3: Financial Analysis and Planning
 - Chapter-4: Financing Decisions
 - ◆ **Module-2 consisting three chapters namely:**
 - Chapter-5: Types of Financing
 - Chapter-6: Investment Decisions
 - Chapter-7: Management of Working Capital
- Each chapter begins with the learning objectives. The learning objectives would enable you to understand the sequence of various aspects dealt within the chapter before going into the details so that you know the direction of your studies.
- In each chapter, an overview has been given just after the learning objectives. This overview provides a preview of the entire chapter and its relevance in the present context.
- Each chapter has been covered in a step-by-step approach. The text has been explained, where appropriate, through illustrations and practical problems. You should go through the chapter carefully ensuring that you understand the topic.

In this revised edition, certain chapters have been revised to make it more students friendly.

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).

For any further clarification/ guidance, students are requested to send their queries at bosnoida@icai.in.

STUDY TIPS AND EXAMINATION TECHNIQUE

The aim of this section is to provide general guidance as to how to study for your examinations. The guidance given herein is supplementary to the manner of study followed by you and is intended to improve your existing technique, but aims to give ideas on how to improve your existing study techniques, as it is essential that you adopt methods and techniques with which you feel comfortable.

Passing exams is partly a matter of intellectual ability, but however accomplished you are in that respect you can improve your chances significantly by the use of appropriate study and revision techniques. In this section we briefly outline some tips for effective study during the earlier stages.

Know your Syllabus

- Go through the syllabus carefully.
- Volume I has been divided in seven chapters and units based on syllabus.
- Main topics are as under:
 - Scope and Objectives of Financial Management
 - Time Value Of Money
 - Financial Analysis and Planning
 - Financing Decisions
 - Types of Financing
 - Investment Decisions
 - Management of Working Capital
- Understand the linkages between chapters at macro-level.

Plan your Study

- Make a study plan covering the entire syllabus and then decide how much time you can allocate to the subject on daily/weekly basis.
- Allocation of time must be done keeping in view your office commitments as well as social needs and personal hobbies.

- Maintain the time balance amongst various subjects such as purely descriptive type and numerical-based papers. Allocate time in such a manner that your interest is well sustained and you are able to score well in the final examination as well.
- Always assess your preparation periodically, say, on monthly basis. If necessary, revise your plan and allocate more time for the subject in which you feel deficient.

Preparing Study Strategy

- Read, understand and assimilate each chapter.
- First of all, have an overview of the chapter to understand the broad contents and sequence of various sub-topics.
- Do the introspection while going through the chapter and ask various questions to yourself.
- Read each chapter slowly to ensure that you understand and assimilate the main concept. If need be, read once again with concentration and then try to attempt exercise at the end of the chapter or given in the Practice Manual.
- Recapitulate the main concept after going through each chapter by way of brief notes.
- Prepare notes in the manner you feel comfortable covering all key points. Use mnemonic form e.g. C V P denoting cost, valuation and price.
- One may use highlighter/underlining the significant points or writing down in the margin.
- The fact that how well you have understood the topic is your ability to attempt the questions given in the exercises as well as in the practice manual. Make a serious attempt at producing your own answers but at this stage do not be much concern about attempting the questions in examination based conditions. In particular, at initial stages, it is more important to understand and absorb the material thoroughly rather than to observe the time limits that would apply in the actual examination conditions.
- Always try to attempt the past year examination question paper under examination conditions.
- Revision of material should never be selective in any case. Because broad coverage of the syllabus is more important than preparing 2-3 chapters exhaustively.
- Read through the text along with notes carefully. Try to remember the definition and important formulae.

Examination Technique

- Reach examination hall well in time.
- Plan your time so that equal time is awarded for each mark. Keep sometime for revision as well.
- Always attempt to do all questions. Remember that six average answers fetch more marks than five best answers. Therefore, it is important that you must finish each question within allocated time.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required by the paper-setter.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- In case a question is not clear, you may state your assumptions and then answer the question.
- While writing answers in respect of essay-type questions, try to make sub-readings so that it catches the examiner's eye. In case of case-study, be very precise and write your conclusion in a clear manner.
- Reference to standards, guidance notes, section of various legislation, etc be done in a clear-cut manner.
- Revise your answers carefully underline important points before leaving the examination hall.

Happy Reading and Best Wishes!

SYLLABUS

PAPER – 3 : COST ACCOUNTING AND FINANCIAL MANAGEMENT

(One paper — Three hours – 100 Marks)

Level of Knowledge: Working knowledge

PART – II : FINANCIAL MANAGEMENT (50 MARKS)

Objectives:

- (a) To develop ability to analyse and interpret various tools of financial analysis and planning,
- (b) To gain knowledge of management and financing of working capital,
- (c) To understand concepts relating to financing and investment decisions, and
- (d) To be able to solve simple cases.

Contents

1. Scope and Objectives of Financial Management

- (a) Meaning, Importance and Objectives
- (b) Conflicts in profit versus value maximisation principle
- (c) Role of Chief Financial Officer.

2. Time Value of Money

Compounding and Discounting techniques— Concepts of Annuity and Perpetuity

3. Financial Analysis and Planning

- (a) Ratio Analysis for performance evaluation and financial health
- (b) Application of Ratio Analysis in decision making
- (c) Analysis of Cash Flow Statement.

4. Financing Decisions

- (a) Cost of Capital — Weighted average cost of capital and Marginal cost of capital
- (b) Capital Structure decisions — Capital structure patterns, Designing optimum capital structure, Constraints, Various capital structure theories

- (c) Business Risk and Financial Risk — Operating and financial leverage, Trading on Equity.
5. Types of Financing
- (a) Different sources of finance
 - (b) Project financing — Intermediate and long term financing
 - (c) Negotiating term loans with banks and financial institutions and appraisal thereof
 - (d) Introduction to lease financing
 - (e) Venture capital finance.
6. Investment Decisions
- (a) Purpose, Objective, Process
 - (b) Understanding different types of projects
 - (c) Techniques of Decision making: Non-discounted and Discounted Cash flow Approaches — Payback Period method, Accounting Rate of Return, Net Present Value, Internal Rate of Return, Modified Internal Rate of Return, Discounted Payback Period and Profitability Index
 - (d) Ranking of competing projects, Ranking of projects with unequal lives.
7. Management of Working Capital
- (a) Working capital policies
 - (b) Funds flow analysis
 - (c) Inventory management
 - (d) Receivables management
 - (e) Payables management
 - (f) Management of cash and marketable securities
 - (g) Financing of working capital.

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