

<b>1.0</b>	<b>SUBJECT CODE AND NAME:</b>	<b>B01: FINANCIAL MANAGEMENT</b>
<b>2.0</b>	<b>LEVEL:</b>	<b>INTERMEDIATE LEVEL</b>
<b>3.0</b>	<b>PRE-REQUISITE SUBJECT:</b>	<b>A02: BUSINESS AND MANAGEMENT</b>
<b>4.0</b>	<b>CONTACT HOURS:</b>	<b>120</b>

## **5.0 SUBJECT DESCRIPTION**

The subject provides knowledge and skills in financial management. It acquaints learners to the corporate financial decision environment, principles of valuation, investment analysis, and financing decisions. It also expounds on dividend decisions, financial planning, working capital management, and forecasting.

## **6.0 PRINCIPAL LEARNING OUTCOME**

Apply financial management knowledge and skills to assess investment opportunities, make accurate financial projections and effectively plan for the financial needs of an organization. It also enables individuals to make informed decisions on capital structure by applying debt and equity financing techniques, as well as determine the optimal level of working capital for a business. Moreover, the subject provides an understanding of dividend policy that helps individuals make informed decisions related to dividend.

## **7.0 INDICATIVE CONTENT AND SUPPORTING LEARNING OUTCOMES**

### **7.1 Fundamentals of Financial Management**

#### **7.1.1 Financial Management Functions**

**Learners will be able to:**

- (a) Describe financial management, its scope and role(s) in corporate management
- (b) Describe financial objectives and its relationship with corporate strategy
- (c) Describe financial objectives and other objectives in not-for-profit organizations.
- (d) Evaluate the relationship between business objectives and financial management objectives.
- (e) Evaluate the roles, motivations and interests of

- different stakeholders (finance managers, treasury managers, owners e.t.c) in financing decisions.
- (f) Assess agency theory and its relevance to financial management.

### **7.1.2 Financial Management Environment**

#### **Learners will be able to:**

- (a) Describe an overview of the financial management environment
- (b) Evaluate the financial system and fund flow in an economy and its relevance to Tanzanian context.
- (c) Describe and apply the nature and roles of financial markets and institutions
- (d) Apply Efficient Market Hypothesis (EMH) in corporate decision-making process
- (e) Evaluate the professional and regulatory environment relevant to financial management including:
  - i. Bank of Tanzania (BoT)
  - ii. Capital Market and Securities Authority (CMSA)
  - iii. Tanzania Insurance Regulatory Authority (TIRA)

### **7.1.3 Risk and Return Analysis**

#### **Learners will be able to:**

- (a) Describe and measure return and expected returns.
- (b) Evaluate different types of risks.
- (c) Describe and use the relationship between risk and return.
- (d) Use market information to compute rate of return, variances and standard deviation of returns.
- (e) Describe and measure risk and expected return in a portfolio context.
- (f) Analyse the power of diversification in achieving superior return for a given level of risk or minimum risk for a given level of expected return.
- (g) Determine and perform optimal portfolio weights.

### **7.1.4 Time Value of Money**

#### **Learners will be able to:**

- (a) Define the time value of money concept, its two main perspectives and explain the role it plays in financial management.
- (b) Apply the time value of money concept to determine future and present values of different cash flow patterns.
- (c) Apply the time value concept to evaluate different cash flow options and plan for various activities such as sinking funds, deferred annuity, retirement plan and capital recovery plans.
- (d) Apply the time value of money to value real securities like, ordinary shares, preferred shares and debentures.

### **7.2 Financial Statement Analysis and Interpretation**

#### **Learners will be able to:**

- (a) Identify and use annual reports, financial statements and their components.
- (b) Outline the factors that influence the contents of financial statements.
- (c) Identify various tools for financial statement analysis to determine the financial performance and position of a company.
- (d) Identify other analysis techniques such as Du Pont system, time series and trend analysis and multiple discriminant analysis.
- (e) Compute and interpret various stock market ratios.

### **7.3 Financing Decisions**

#### **7.3.1 Short, medium- and long-term financing alternatives**

#### **Learners will be able to:**

- (a) Assess short term sources of finance – overdraft, trade credit, factoring, bills of exchange, and trade credit.
- (b) Evaluate forms of medium-term sources of finance – term loan, hire purchase, and leasing.

- (c) Assess the range of long-term sources of finance available to businesses, including equity, debt and venture capital.
- (d) Assess the advantages and disadvantages of each type of security as a method of raising the capital required by the corporation.
- (e) Describe and use the processes involved in issuance of corporate securities and discuss the choice and roles of investment advisers in the processes.

### **7.3.2 Cost of Capital**

#### **Learners will be able to:**

- (a) Describe cost of capital and its significance in financial decision making.
- (b) Assess options for financing an entity based on a given business scenario and environment.
- (c) Evaluate the implication of tax on debt financing in relation to cost of capital.
- (d) Explain the application of CAPM in relation to cost of capital and describe its assumptions and limitations.
- (e) Evaluate costs of different financing methods used by a company.
- (f) Estimate the company's overall cost of capital and that of a project and identify the situations in which each is used as a valuation and decision tool.
- (g) Describe and use the roles of market and book values in computing cost of capital.
- (h) Describe the determinants of the level of cost of capital.
- (i) Analyse different uses of cost of capital in finance.

### **7.3.3 Financial Gearing and Capital Structure**

#### **Learners will be able to:**

- (a) Explain financial gearing and capital structure.
- (b) Explain and compute operational gearing, and financial gearing.

- (c) Describe the relationship between financial gearing and operating gearing in assessing business and financial risk.
- (d) Describe the basic capital structure theories (the traditional theories, the net operating income theory, the Modigliani and Miller theories, signaling theory, Pecking order, bankruptcy and agency cost.
- (e) Evaluate whether or not capital structure has influence on value or cost of capital of a company.
- (f) Assess the effect of capital gearing on investors' perception of financial risk and return.
- (g) Determine the implications of debt financing on the return to shareholders under various financing alternatives.
- (h) Explain and compute the geared and ungeared betas and its implication to cost of equity.
- (i) Evaluate the determinants of capital structure of a firm.

## **7.4 Investment Decisions**

### **7.4.1 Investment Appraisal (Capital Budgeting)**

#### **Learners will be able to:**

- (a) Describe the nature of long-term investments and their roles in corporate development.
- (b) Explain the investment process and the framework for evaluating investment projects.
- (c) Assess investment appraisal techniques based on a given business, its objectives and circumstances.
- (d) Compare various appraisal techniques.
- (e) Assess appropriate discount factors or rates used to undertake an investment appraisal based on a given business scenario, data and information.
- (f) Apply appraisal techniques (discounted and non-discounted cash flow) and discount factors or rates to appraise various investment project scenarios
- (g) Assess appropriate data that may be used in cash flow calculations based on given business scenario data and information.

- (h) Estimate cash flows for investment appraisal.
- (i) Perform investment appraisal under inflationary condition.

#### **7.4.2 Advanced investment appraisal**

##### **Learners will be able to:**

- (a) Assess factors that may need to be considered beyond basic investment appraisal analysis including assessment of risk, subjective factors, intangible factors, and limitations in data and information which may affect the advice given.
- (b) Incorporate risk and inflation into the investment appraisal using various techniques/ models.
- (c) Perform investment appraisal (calculating optimal investment plan) under capital restrictions and limitations.
- (d) Perform investment appraisal under asset replacement and abandonment conditions.
- (e) Evaluate the impact of non- financial factors such as economic, social and environmental issues on making an appropriate investment decision.

#### **7.4.3 Investments in Securities and Portfolio Theory**

##### **Learners will be able to:**

- (a) Describe and use the portfolio investment and management process, indifference curves and investors, preferences, investment policies and strategies.
- (b) Analyse the objectives and constraints of individual investors.
- (c) Describe and apply the theory of portfolio allocation – asset allocation across risky and risk- free assets.
- (d) Describe and use the principle of diversification – the Markowitz portfolio theory.
- (e) Determine the minimum variance portfolio and efficient frontier.

- (f) Describe and apply capital market line and the separation theory.
- (g) Differentiate between SML and CAPM; and between CAPM and Asset pricing Theory (APT).
- (h) Differentiate between SML and capital market line; and between CAPM and capital market line.
- (i) Describe and apply the capital market line and the separation theory.
- (j) Compute the beta factor and alpha values.
- (k) Compare the CAPM and the Arbitrage Pricing theory (APT).
- (l) Assess performance of a portfolio using the risk adjusted benchmarks – The Treynor, Jensen and Sharpe Measures.

## **7.5 Dividend Policy**

### **Learners will be able to:**

- (a) Describe and use the alternative dividend policies that companies can adopt and their significance.
- (b) Discuss and apply the various arguments put forward by different schools about dividend policy – dividend irrelevance, dividend relevance, mid-roads schools as well as the role of market imperfections in the debate.
- (c) Compute and interpret share price under the models representing each school of thought.
- (d) Examine the factors which determine a company's dividend policy, with some reflections on the evidence in Tanzanian market and beyond.
- (e) Analyse the alternatives to cash dividends such as share repurchases, and script dividend showing the advantages and disadvantages of each alternative.

## **7.6 Working Capital Management**

### **Learners will be able to:**

- (a) Demonstrate understanding of the principles underlying effective management of working capital.
- (b) Describe application of different working capital policies and the impact of each on the profitability and liquidity position of the business.
- (c) Assess the determinants of the working capital policy of businesses.
- (d) Apply relevant accounting ratios to estimate the working capital requirements of a firm.
- (e) Evaluate the use of economic order quantity model and just in time techniques in managing inventory.
- (f) Apply different techniques in managing receivables including assessment of credit worthiness, early settlement discounts as well as factoring and invoice discounting.
- (g) Apply different techniques in managing payables including using trade credit effectively, evaluating the benefits of early settlement, purchases discounts etc.
- (h) Determine the optimal cash balance and its effects on the profitability-liquidity position of the firm (Baumol's and Miller-Orr Models).

## **7.7 Financial Planning and Forecasting**

### **7.7.1 Financial Planning**

#### **Learners will be able to:**

- (a) Describe and use the nature and scope of financial planning.
- (b) Explain and use the relationship between short term and long-term financial planning.
- (c) Analyse planning requirements for financial control.
- (d) Prepare a short-term plan using relevant techniques.
- (e) Evaluate and explain the implications of given terms in a loan or financing agreement including covenants, warranties and guarantees.



### 7.7.2 Financial Forecasting

#### Learners will be able to:

- (a) Prepare cash flow forecasts
- (b) Link external financing and the company growth.
- (c) Evaluate suitable source(s) to finance fund needs
- (d) Prepare proforma financial statements

## 8.0 LEARNING CONTEXT

- a. Lecturing, presentations and Guest speaking.
- b. Classroom discussions, role playing and brain storming.
- c. Group works and Individual assignments.
- d. Practical problem solving.
- e. Surfing/browsing (Web based materials).

## 9.0 RECOMMENDED LEARNING MATERIALS

NBAA, (2023). Financial Management Study Text. NBAA. Dar-es-Salaam, Tanzania.

## 10.0 OTHER RECOMMENDED LEARNING MATERIALS

ACCA Financial Management, *Study Text* Arnold, G. (2008). *Corporate financial management*. 4th edition. Harlow: FT Prentice Hall.

Bodie, Z., Kane, A. and Marcus, A.J. (2018). *Investments*. 11th edition. Boston: McGraw Hill.

Brealey, R. A., Myers, S. C. & Marcus, A.J. (2015) *Fundamentals of corporate finance*. 8th edition. Boston: McGraw-Hill, Irwin.

Brigham, E. F. & Houston, J. F. (2018) *Fundamentals of Financial Management*. 15th Edition. Cengage Learning, USA.

Gitman, L. J. (2015) *Principles of managerial finance*. 14th edition. Pearson.

Pandey, I. M. (2018) *Financial management*. 11th edition. New Delhi: Vikas Publishing House Pvt Ltd.

Van Horne, J.C and Wachowicz Jr,J.M (2009). *Fundamentals of Financial Management*, 13th Edition, FT Prentice Hall- Pearson Education Ltd., England.

Ross, S. A., Westerfield, R. W. and Jordan, B. D. (2021). *Fundamentals of Corporate Finance*. 14th edition. Boston: McGraw-Hill - Irwin.

Ross, S.A., Westerfield, R.W. and Jaffe, J. (2019). *Corporate finance*. 13th edition. New York: McGraw Hill – Higher Education.

Srivastava, R. and Misra, A. (2010). *Financial management*. 6<sup>th</sup> impression. New Delhi: Oxford University Press.

Watson, D. and Head, A. (2010). *Corporate finance: Principles and practice*. 5th edition. Harlow: FT Prentice Hall – Pearson Education Ltd.