

LEARNING GUIDE
2014

SUBJECT:

Financial Management IV

SUBJECT CODE:

FNB42BB

FINANCIAL MANAGEMENT IV – FNB 42BB

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1. PREFACE

I heartily welcome you to this important field of study in your quest for more knowledge in financial decision making and business management skills. I believe that you will complete the course successfully. It is my hope that it will also serve your desire for more knowledge, personal developmental and career advancement.

Financial management is a very practical subject. It requires a sound understanding of financial accounting, business management and economics. The classes will be in the form of espousing the theories of each topic and supporting them with practical examples in order to enhance the student's understanding. It is expected that students will practice the exercises at the end of each chapter so as to boost their understanding.

Learners are required to read each chapter outlined in this guide before attending classes. After class discussions of each topic, practical problems/practise questions will be assigned to the students during lectures for practice at home. It is important that these questions are practiced before attending the next class in order to enhance their understanding of the subject. More time can be spent on resolving practical problems and discussing the practical application of the theories instead of concept definitions.

The self study assignments consist of exercises and problems, which should be solved by means of self-study. The importance of self-study can not be overemphasized.

1.1 Purpose of Study Guide

This study guide serves as an instrument for preparation. It will provide you with an overview of the course and its prescribed syllabus. This course is subdivided into modules so that students can plan their time and prepare adequately for lectures. Moreover, it will enable them to follow a systematic manner in completing the syllabus.

1.2 **Attendance of classes**

Class attendance is compulsory. Crucial information and important announcements will be made during class meetings. Thus, it will be very difficult for a student to perform well in this subject if he/she does not attend classes regularly. Prior adequate preparation is essential for quick understanding

NB! Should a student fail to attend class it is his/her responsibility to obtain class notes and make enquiries about important announcements from fellow students! They are advised to study the work missed during that period(s).

1.3 **Submitting assignments**

Due dates are set for every assignment that forms part of the assessment for this subject. The due date for each assignment is published in this study guide. These dates represent the last working day on which assignments should reach the facilitator at Central University of Technology.

Please note:

- a. Faxed assignments will not be accepted.
- b. Students must submit the assignments directly to the facilitator **in class** on or before the due date.
- c. Always keep a copy of every assignment you submit. The course facilitator accepts no responsibility for lost assignments.
- d. All assignments must be prefaced with a completed *Assignment Submittal & Identification Sheet* (a copy of this sheet is attached at the end of this guide).

1.3.1 **Late submittal penalties**

Unless an extension has been sought and granted, late assignments will be penalized. The penalty rate will be -20% per day or part of a day for each of the first or second days after the due date (i.e. a penalty of -40%). After seven days there will be a further penalty of -60% (i.e. possible mark of 0%). Thus it is in your interest to aim to complete the work at least a week earlier than the due date.

1.3.2 **Extensions**

Applications for extension must be done in writing **before** the assignment due date. The application must be accompanied by supporting documentation of illness or other exceptional circumstances. Granted extensions are only valid once the facilitator confirms it and the student has received notification thereof.

1.3.3 **Plagiarism**

Central University of Technology regards plagiarism as a very serious offence and it is regarded as grounds for failure. Students found plagiarizing could face proceedings under the Central University of Technology's Regulations. Therefore, any assessable material submitted by the students must be their own.

1.4 **Evaluation**

NB Students are responsible for ensuring that they are aware of and understand the various means of evaluation for each of the subjects for which they are registered. The complete

rules regarding academic evaluations are contained in the Evaluation Policy and Procedure Manual (available in the Library and Information Centre) and all students must be acquainted with the contents thereof. Certain abstracts from the Evaluation Policy and Procedure Manual are discussed.

Evaluation during the presentation of a module can be conducted according to any evaluation method as approved by the department. The obtained mark may form part of the final module mark.

- a) This is a semester subject. At the end of the six-month unit, the subject content covered is evaluated and a final mark will be calculated.
- b) A course mark is a calculated mark of all tests, assignments and oral evaluations that have been done during the course of a unit. **A course mark of 40% is required for the summative assessment at the end of the semester.**

c) Evaluation Model

	July – December 2014
Course mark	40
Assessment mark	60
Final mark	100

- d) Please note that once you've been granted a re-evaluation, sickness- or special evaluation, no additional evaluation will be granted.
- e) The minimum pass mark per subject is 50%.
- f) Evaluation timetables are NOT mailed to students, but will be made available on the central notice boards and the Internet: www.cut.ac.za.
- g) It is the duty of every student to ensure that he/she is fully aware of dates, times and venues of evaluation.
- h) Re-assessment
Immediately after the official assessment, an official re-assessment will be granted to all students who have achieved a final result of 45% - 49% in a subject. The students will be evaluated on the subject content covered over the course of the entire year.
 - A final mark of 50% only will be awarded if the candidate passes the re-assessment.
 - The particulars of students who qualify for a re-assessment will be published on the central notice boards at least four (4) working days before the subject is written.
 - It is the responsibility of the student to acquaint him/herself of such a summons to re-assessment, the date, time and venue. Central University of Technology accepts no responsibility/liability in this regard.

f) Sickness and special evaluations

Application for sickness and special evaluations must be made on forms LS117.1 or LS213.2 within three (3) working days after the evaluation or the date on which the evaluation item should have been submitted. The application must be supported by a medical report or other suitable proof. **[The medical report must be dated on or before the date of evaluation.]**

g) Re-marking

Re-marking means that an assignment/answer script, which has not been altered or extended by the student, is marked for a second time. A remark fee is payable. An assignment may only be submitted once for re-marking. If the re-marking results in an amended mark or result, that result will be the final result.

1.4.1 **Absenteeism when evaluations are done**

Absenteeism when tests or other evaluations are done is strongly discouraged. Should a student be absent during evaluations though, the onus rests on the student to report to the facilitator, within the prescribed time limit, for the arrangement of a supplementary evaluation. Only a medical certificate or other acceptable written explanation will enable a student to do a supplementary evaluation. All tests must be written and assignments must be handed in on time. The sick test will normally be written the following week after the date on which the test was missed.

2. **SYLLABUS**

Name of instructional offering: FINANCIAL MANAGEMENT IV
Subject Code : FNB 42 BB
Examining requirements : 1 X 3 hour question papers

2.1 **Goals of the instructional offering**

This subject introduces students to the new and exciting developments in the dynamic field of financial management. It will provide the students with introductory knowledge, skills and insight into financial decision making, as well as introduce them to the concept of risk evaluation and capital budgeting techniques and investment appraisal methods.

2.2 **Core content of instructional offering**

- Overview of Financial Management
- Risk and Returns relationship
- Risk and Return evaluation in financial decision making
- Capital Budgeting techniques and Investment Appraisal

3. **PRESCRIBED TEXT BOOKS AND LITERATURE**

Correira C, Flynn D, Uliana E & Wormald M. **Financial Management**: 6th Edition; ISBN: 9780702171574. JUTA Cape Town.

The prescribed book will be the main source of information. Main elements will be discussed in class but there is a lot of material that you must read by yourself.

4. **TIME SCHEDULE: 2ND SEMESTER PLANNING 2014**

Assessment	Planned date/Due date for assessment: before	% per evaluation	Total %
Test 1 or Assignment	11/08/2014 – 15/08/2014	20	
Test 2 or Assignment	15/09/2014 – 19/09/2014	20	
Examination	Starts 27/10/2014	60	100

NB! Exact dates and venue will be communicated in class.

5. **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 and explain.

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 as learner should do so systematically - completing one aspect at a time. It is always better to do this in your own words.

Criticise

This means that you as learner 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.

Define

Give the precise meaning of something in the shortest possible way.

Describe

Say exactly what something is like; give an account of the characteristics or nature of something.

Discuss

Comment on something in your own words. Often requires debating two viewpoints or two different possibilities. EXAMPLE: Discuss the differences between objectives and goals.

Distinguish

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

Give an example

A practical illustration of a concept is required.

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.

Identify

Give the essential characteristics or aspects of a phenomenon e.g. a good research design.

List

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

Motivate

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

Outline

Emphasize 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.

Summarise

Give a structured overview of the most important aspects of a topic in your own words.

Highlight

To bring out the important characteristic or major quality that is inherent or imbedded in a concept, theory or argument. The essence is to accentuate the striking characteristics.

6. LEARNING UNITS

LEARNING UNIT 1: Overview of Financial Management:

To understand the evolution, value & purpose of financial management in corporate organizations.

SPECIFIC OUTCOMES

After studying this learning unit you as learner should be able to:

- Define financial management and its links to Accounting and Economics.
- Explain the objectives of financial management
- Describe the various forms of business organizations
- Explain the financial manager's role and the emphasis on shareholder's wealth maximization and the agency problem of corporate governance
- Explain the fundamentals of business taxation and its impacts on financial decisions
- Explain the concept of Economic Value Added (EVA)
- Describe the interactions between investment and financing decisions
- Explain the fundamental concepts of corporate finance.

SOURCE: Correira C., Flynn D., Uliana E & Wormald M.: **FINANCIAL MANAGEMENT: 6th Ed. - Chapter One**

SELF STUDY ASSIGNMENT: Review and practice questions.

LEARNING UNIT 2: The Time Value of Money:

To understand the impact of time value of money in business decision making.

SPECIFIC OUTCOMES

After studying this learning unit you as learner should be able to:

- Explain the concepts of present and future value of money
- Calculate the present and future value of single sum, annuity and mixed streams of cash flows
- Calculate the present value of a growing perpetuity, constant and uneven streams of cash flows
- Define and calculate an annual effective rate
- Explain the difference between nominal and real Interest rates
- Apply time value of money principles to real world problems and valuation of bonds
- Explain the factors that determine the term structure of interest rates

SOURCE: Correira C., Flynn D., Uliana E & Wormald M.: **FINANCIAL MANAGEMENT: 6th Ed. - Chapter Two**

SELF STUDY ASSIGNMENT: Review and practice questions.

LEARNING UNIT 3: Risk and Return:

To understand the importance of risk and its evaluation in financial decision making

SPECIFIC OUTCOMES

After studying this learning unit you as learner should be able to:

- Explain the difference(s) between business risks and financial risk
- Calculate earnings and yields
- Calculate leverages, variance, standard deviations and correlations
- Explain the history of equity returns and debenture (bonds) returns

SOURCE: Correira C., Flynn D., Uliana E & Wormald M.: **FINANCIAL MANAGEMENT: 6th Ed- Chapter Three**

SELF STUDY ASSIGNMENT: Review and practice questions.

LEARNING UNIT 4: Portfolio Management:

To understand the effects of diversification on the expected return and risk of a portfolio of shares

SPECIFIC OUTCOMES

After studying this learning unit you as learner should be able to:

- Explain how to measure return & risks on a portfolio of shares and discuss the risks /return relationship of a portfolio in terms of correlation and diversification
- Explain the beta's role in measuring risk of an single share and a portfolio
- Explain the Capital Asset pricing model and its relationship to the security line

SOURCE: Correira C., Flynn D., Uliana E & Wormald M.: **FINANCIAL MANAGEMENT: 6th Ed. - Chapter Four**

SELF STUDY ASSIGNMENT: Review and practice questions.

LEARNING UNIT 5: Valuations:

To understand the links between return and risk in valuing shares / debentures (bonds)

SPECIFIC OUTCOMES

After studying this learning unit you as learner should be able to:

- Explain the basic concepts that are applied in the valuation of assets
- Explain how to value shares and debentures (bonds) using the discounted cash flow technique
- Explain how to value shares, bonds/ debentures and preference share using the dividend discount model
- Calculate price earning ratio, market to book ratio, and price to sales ratio and the free cash flow model.
- Discuss the financial manager's role in valuation and
- Describe the Economic Value Added (EVA) approach to valuation

SOURCE: Correira C., Flynn D., Uliana E & Wormald M.: **FINANCIAL MANAGEMENT: 6th Ed. - Chapter Six**

SELF STUDY ASSIGNMENT: Review and practice questions.

LEARNING UNIT 6: Cost of Capital:

To understand how to measure and evaluate the cost of sourcing long term capital

SPECIFIC OUTCOMES

After studying this learning unit you as learner should be able to:

- Explain the concept of the Weighted Average Cost of Capital (WACC)
- Determine the cost of debt and preference shares
- Determine the cost of equity using the dividend growth model and the Capital Asset Pricing Model (CAPM)
- Explain the practical issues of estimating the CAPM parameters and uses of the WACC in determining Economic Value Added (EVA).

SOURCE: Correira C., Flynn D., Uliana E & Wormald M.: **FINANCIAL MANAGEMENT: 6th Ed- Chapter Seven**

SELF STUDY ASSIGNMENT: Review and practice questions.

LEARNING UNIT 7: Capital Budgeting:

To understanding capital budgeting decision and cash flow projections.

SPECIFIC OUTCOMES

After studying this learning unit you as learner should be able to:

- Describe the main reasons for capital expenditure and the capital budgeting process
- Highlight the importance of cash flow vis-à-vis accounting earnings
- Summarise and apply investment appraisal techniques and identify relevant cash flow necessary for investment analysis.
- Outline the tax implications in capital budgeting decisions
- Criticise the role of post-audits

SOURCE: Correira C., Flynn D., Uliana E & Wormald M.: **FINANCIAL MANAGEMENT: 6th Ed - Chapter Eight**

SELF STUDY ASSIGNMENT: Review and practice questions.

LEARNING UNIT 8: Further Issues in Capital Budgeting:

To understand the effects of inflation and tax losses in capital budgeting.

SPECIFIC OUTCOMES

After studying this learning unit you as learner should be able to:

- Compare budgets of projects with unequal lives
- Analyse capital budgeting under inflation
- Define capital rationing and project ranking
- Analyse strategic options in project selection.

SOURCE: Correira C., Flynn D., Uliana E & Wormald M.: **FINANCIAL MANAGEMENT: 6th Ed. - Chapter Nine**

SELF STUDY ASSIGNMENT: Review and practice questions.

7. WORKPLAN FOR THE SEMESTER

MONTH	DATE	REMARKS	UNITS OF LEARNING
JUL	21 – 25	5 days	1
JUL/AUG	28 – 01	5 days	2
AUG	04 – 08	5 days	2
AUG	11 – 15	4 days	Test 1
AUG	18 – 22	5 days	3
AUG	25 – 29	5 days	4
SEPT	01 – 05	5 days	5
SEPT	08 – 12	5 days	5
SEPT	15 – 19	5 days	Test 2
SEPT	22 – 26	5 days	6
SEPT/OCT	29 – 03	5 days	6
03 Oct – 10 Oct: Holidays			
OCT	13 – 17	5 days	7
OCT	20 – 24	5 days	8
OCT/NOV	27 – 14	Nov Assessment	
NOV	17 – 28	Re-assessment	
15 Dec: Holidays			

Exact DATES and FORMAT of TESTS will be communicated in class.

8. PROBLEM-BASED and LEARNER-CENTRED APPROCH TO LEARNING:

The Central University of Technology (CUT) places much emphasis on problem-based learning as part of its teaching and learning plan. The CUT believes that problem-based learning helps to produce deep learning in the minds of the students because it stimulates their active participation and encourages them to take ownership of the learning process. In problem-based learning, the learners are encouraged to engage in brainstorming sessions and to share their own ideas/experience with other learners as they attempt to proffer solutions to an identified problem. Another benefit of problem based learning is that it is learner-centred rather than lecturer centred – the students can substitute their active learning experiences for lectures while holding themselves responsible for materials that have not been exhaustively treated in class.

The lecturer's role in a problem-based and learner-centred approach to learning is purely learning facilitation where the learners engage in an interactive exchange of ideas, fact finding and solution-focused approach to solving an identified problem. Today's lecturer's duty has changed from "chalk and talk" to class room moderation. The goal is to guide the students' explorative search for knowledge and to help them integrate their new learning activity to previous learning experience. The lecturer achieves this by focusing the students' attention and efforts on relevant sources of materials (textbooks, journals and web sites) where the student can glean theories, concepts and other pertinent information that are applicable to the problem at hand. **The Lecturer does not solve problems for the student.** She/he helps them to develop problem solving skills. This will be our approach for studying Financial Management IV in 2012.