

PAPER
6A
INTERMEDIATE COURSE
STUDY MATERIAL
GROUP-II
FINANCIAL MANAGEMENT
MODULE 1 OF 2



Board of Studies (Academic)
The Institute of Chartered
Accountants of India

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BEFORE WE BEGIN....

In the changing dynamics of business environment the role of a Chartered Accountant (CA) is not only restricted to accounting and auditing but has also shifted towards strategic decision making and entrepreneurship. It has necessitated the Chartered Accountancy profession to re-position itself from traditional role of accountants to a global business solution provider. In the era of digitization, form of markets has evolved from brick and mortar to cloud based e-markets, emergence of new financial instruments and currencies opening the avenues of opportunities in the guise of challenges, role of CA has evolved immensely. The CA as a professional dealing with management of financial has to take up diversified role. The world of finance is evolving with each passing day, so to the scope of financial management. The Board of Studies (BoS) of The Institute of Chartered Accountants of India (ICAI) with a motto to provide quality education and training to the aspiring Chartered Accountants has been continuously reviewing and updating the study material and making relevant changes in it. In order to make the aspiring Chartered Accountants contemporaneous and ready to play a key role in the dynamic global business environment; the competence requirements are continuously reviewed to inculcate the requisite professional competence.

In order to sustain and grow their financial standing, organisations across the world essentially require managers who are competent in new domains of finance. One of the fundamental domains of finance, financial management deals with the functions relating to how much and which assets are to be acquired, how to raise capital to acquire the assets and what is to be done to maximize the shareholder's wealth. Financial management comprises the processes of planning and controlling subsystems of funds.

A study in financial management will help the students to understand the functions of financial managers, providing with an overview of broad issues and problems that financial managers face in various commercial domains of our economy. This subject introduces various concepts and theories relating to finance, which are fundamental to the methodologies and proficiencies offered as aids to understand, identify, and solve the problems of financial managers. Study of financial management will help the Chartered Accountancy students to develop an acumen, to grow competencies in financing decision, investment decision, dividend decision

and working capital management. This Study Material contains all relevant and contemporary topics like *P2P lending, Equity funding, Crowd funding, Start-up funding, Credit Granting* as detailed out in the syllabus.

Under the Revised Scheme of Education and Training, at the Intermediate Level, students are expected not only to acquire professional knowledge but also to develop the ability to apply the knowledge in real life business situations. The process of learning should also help the students in imbibing professional skills, i.e., the intellectual skills and communication skills, necessary for achieving the desired professional competence.

The entire syllabus of nine chapters have been grouped into two modules:

Module-1: Consisting of six chapters namely:

Chapter-1: Scope and Objectives of Financial Management

Chapter-2: Types of Financing

Chapter-3: Financial Analysis and Planning- Ratio Analysis

Chapter-4: Cost of Capital

Chapter-5: Financing Decisions- Capital Structure

Chapter-6: Financing Decisions- Leverages

Module-2: Consisting of three chapters namely:

Chapter-7: Investment Decisions

Chapter- 8: Dividend Decisions

Chapter- 9: Management of Working Capital

The content for each chapter at the Intermediate level has been structured in the following manner –

1. **Comprehensive Learning Outcomes:** Learning outcomes which you need to demonstrate after learning each topic have been detailed in the first page of each chapter. Demonstration of these learning outcomes would help you to achieve the desired level of technical competence.
2. **Chapter Overview:** As the name suggests, this chart/table would give a broad framework of the contents covered in the chapter.

3. **Introduction:** A brief introduction is given at the beginning of each chapter, which would help you get a feel of the topic.
4. **Content:** In each chapter, the topics have been covered following 'step by step' approach. The concepts are explained in student-friendly manner with the aid of examples/illustrations/diagrams/flow charts/pictorials as per requirement. These value additions would help you develop conceptual clarity and to get a good and quick grasp of the topic. Diagrams, Pictorials and Flow charts would help you understand the concepts in a better manner. Illustrations would help you understand the application of concepts/ provisions. More illustrations/ practical questions in Test Your Knowledge section have been added to enable a thorough practice of variety of questions.
5. **Illustration with Answers:** Illustrations and examples have been included in the Study Material systematically, after discussion on each topic, so that application of the concepts can be understood very clearly. This would also enable you to learn and sharpen your application skills and test your understanding. Illustrations and practical questions have been re-arranged in a systematic way appropriately as per the requirement of each chapter.
6. **Summary:** A summary of the chapter is given at the end to help you revise what you have learnt. It would especially help you to revise the chapter(s) quickly the day before the examination.
7. **Multiple Choice Questions (MCQs) :** In the New Scheme of Education and Training, assessment for 30 marks in each paper at the Intermediate and Final level would be by way of case scenario based MCQs. Questions in this segment would comprise of a case scenario followed by a few MCQs based on the case scenario. All case scenario based MCQs would be application oriented. There would be 4 options in each MCQ, out of which the student has to choose the correct option. In the subject of Financial Management, a student has to apply the Financial Management concepts learnt in solving the MCQs based on the case scenario. In order to hone the application and analytical skills of students, independent MCQs have been included in every chapter of this Study Material. Solving these MCQs will enhance your conceptual clarity and sharpen your analytical skills.
8. **Test Your Knowledge:** This comprises of Multiple-Choice Questions (MCQs), Theoretical Questions and Practical Problems with solutions which test the length and breadth of your understanding of the topic.

9. **Skill Specification Assessment:** An indicative Skill Specification Assessment Grid has been incorporated in the Study Material for better understanding of the students. An effort has been made to arrange the questions/illustrations/exercise accordingly.

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). Further, the solutions/answers contained in the study material are based on certain assumptions, and other logical alternative assumption/ approach/ presentation may be possible. Every effort has been made to remove typing errors (if any)/ clerical errors (if any)/ missing content (if any)/ formatting errors (if any) to make Study Material error free, however, if inadvertently any error is present and found by readers they may send it to us immediately, so that it can be rectified at our end.

In case you need any further clarification/ guidance, you may send your queries through ICAI BoS App.

Happy Reading and Best Wishes!

SKILL SPECIFICATION ASSESSMENT GRID

Skill Level	Manner of Assessment of Skills	Illustrative verbs used to construct learning outcomes
Level-I: Knowledge and Comprehension	Understanding or grasping ability (Defining, stating, enlisting, identifying, and explaining concepts / provisions/theories/principles relating to the relevant subject area.)	List – Preparing a list of. State – Mentioning clearly or fully the details of. Define – Explaining the exact meaning of. Describe – Giving detailed narration of something or key features. Distinguish – Mentioning or highlighting the difference between. Explain – Making the meaning of. Identify – Recognizing something. Illustrate – Explaining something with the help of an example. Combination of verbs: Comprehend and Explain; Identify and explain and similar verbs.

<p>Level-II:</p> <p>Application and Analysis</p>	<p>Applying and analyzing the concepts learned during the grasping level.</p> <p>(Application: Applying concepts / provisions / theories / principles in problem solving in non-complex scenarios.)</p>	<p>Application:</p> <p>Apply – Putting theoretical knowledge for practical purpose.</p> <p>Calculate – Arriving at some value by following numerical/ analytical procedures.</p> <p>Compute – Arriving at some value by following numerical/ analytical procedures.</p> <p>Determine – Ascertain or establish exactly by calculation or workings.</p> <p>Find/ Find out- Ascertain or establish exactly by calculation or workings.</p> <p>Demonstrate – Proving something with certainty using practical means.</p> <p>Prepare – Making something ready for any use.</p> <p>Reconcile – Making or proving consistency/ compatibility.</p> <p>Solve – Find an answer or solution to something.</p> <p>Tabulate – Exhibiting the required information in a tabular form.</p> <p>Combination of verbs:</p> <p>Compare and contrast similar verbs.</p>
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	<p>(Analysis: Applying, comparing and analysing concepts / provisions / theories / principles in problem) solving in moderately complex scenarios.)</p>	<p>Analysis:</p> <p>Analyze – Examining something in detail.</p> <p>Categorize – Arranging something in a predefined group or class or division.</p> <p>Compare – Examining the differences or similarities between.</p> <p>Construct – Building or compiling.</p> <p>Discuss – Writing about or examining in detail.</p> <p>Interpret – Translating in intelligible or familiar or understandable terms.</p> <p>Combination of verbs:</p> <p>Analyse and apply similar verbs.</p>
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SYLLABUS

PAPER – 6 : FINANCIAL MANAGEMENT AND STRATEGIC MANAGEMENT

(One paper – Three hours – 100 Marks)

SECTION A : FINANCIAL MANAGEMENT (MARKS: 50)

Objective:

- (a) To develop an understanding of various aspects of Financial Management and acquire the ability to apply such knowledge in decision-making.
- (b) To understand various finance functions like financing decision, investment decision, dividend decision.
- (c) To develop an understanding of working capital management and its component.

1. Financial Management and Financial Analysis

(i) Introduction to Financial Management Function

- (a) Objective and scope of financial management.
- (b) Profit Maximisation, Wealth Maximisation and Value Creation.
- (c) Role of Financial Manager and Financial Controller.
- (d) Financial management environment.
- (e) Functions of finance executives in an organization.
- (f) Financial distress and insolvency.

(ii) Financial Analysis through Ratios

- (a) Users of the financial analysis
- (b) Sources of financial data for analysis
- (c) Calculation and Interpretation of ratios.
- (d) Limitations of ratio analysis

2. Financing Decisions and Cost of Capital

(i) Sources of Finance

- (a) Different Sources of Finance, Characteristics of different types of long-term debt and equity finance, Method of raising long term finance
- (b) Different Sources of short-term Finance
- (c) Contemporary sources of funding- P2P lending, Equity funding, Crowd funding, Start-up funding, etc.
- (d) Internal fund as a source of finance
- (e) International sources of finance
- (f) Other sources of finance- Lease Financing, Sale and lease back, Convertible debt, Venture capital, Grants etc.

(ii) Cost of Capital

- (a) Significance of cost of capital
- (b) Factors of cost of capital
- (c) Measurement of costs of individual components of capital
- (d) Weighted average cost of capital (WACC)
- (e) Marginal cost of capital

(iii) Capital Structure Decisions

- (a) Significance of capital structure
- (b) Determinants of capital structure
- (c) Capital structure planning and designing
- (d) Designing of optimum capital structure
- (e) Theories of Capital Structure and value of the firm- relevancy and Irrelevancy of capital structure.
- (f) EBIT- EPS Analysis, Breakeven- EBIT Analysis.
- (g) Under/ Over Capitalisation.

(iv) Leverages

- (a) Types of Leverages- Operating, Financial and Combined
- (b) Analysis of leverages

3. Capital Investment and Dividend Decisions**(i) Capital Investment Decisions**

- (a) Objective of capital investment decisions
- (b) Methods of Investment appraisal:
 - Payback period, Discounted payback period
 - Accounting Rate of Return (ARR),
 - Net Present Value (NPV) - The meaning of NPV, Strengths and limitations of NPV method, The working capital adjustment in an NPV analysis, Capital rationing, Equivalent Annual Costs,
 - Internal Rate of return (IRR)- Limitations of the IRR method, Multiple IRRs,
 - Modified Internal Rate of Return (MIRR)- Definition and explanation of MIRR, Process for calculating MIRR, Strengths of the MIRR approach.
 - Profitability Index

(ii) Dividend Decisions

- (a) Basics of Dividends
- (b) Cash dividend, stock dividend/ bonus share, stock-splits, share buy back
- (c) Determinants of dividend
- (d) Relevancy and Irrelevancy of Dividend Policies- Traditional Approach, Walter's model, Gordon's model, Modigliani and Miller (MM) Hypothesis.

4. Management of Working Capital

- (a) The management of working capital- Liquidity and Profitability
- (b) The Working capital financing decisions- Primary and Secondary Sources of Liquidity
- (c) The working Capital Cycle (operating Cycle), Effectiveness of Working Capital based on its operating and cash conversion cycles
- (d) Assessment of working capital requirement
- (e) Management of Accounts Receivables (Debtors)
- (f) Factoring and Forfaiting
- (g) Credit Management
 - Credit granting
 - Monitoring accounts receivables
 - Debt collection
- (h) Management of Accounts Payables (Creditors)
- (i) Management of Cash, Treasury management
- (j) Banking norms of working capital finance

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