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**FINANCIAL MANAGEMENT FINAL EXAMINATION.**

1. Define the followings terms as used in Financial Management
2. Accounting

Accounting is defined as the collecting, recording, classifying and presenting of financial data for the benefit of management and outside agencies such as shareholders, creditors, investors, government and other interested parties.

According to the committee on Terminology of American Institute of Certified Public Accountant AICPA, accounting is the art of recording, classifying and summarizing data in a significant manner and in terms of money transaction and events which are in part at least of a financial character and interpreting the result thereof.

1. Budgeting

Budgeting is a process of creating a plan to spend your money.

In other words is a balancing of your expenses with incomes; therefore is a process of preparing detailed projection of future amounts.

1. Financial reporting standards.

Financial reporting standards, these are also Generally Accepted Accounting Principles which provide the basis for accounting policies and for preparation of financial statements.

The objective of this standard is to provide uniformity in financial reporting and ensure consistency and comparability of the information provided by the business firms

1. GAAP

GAAP stands for Generally Accepted Accounting Principles.

These are principles are rules of action or conduct which are adopted by the accountants universally while recording accounting transactions.

Therefore, the are body of doctrines commonly associated with the theory and procedures of accounting serving as an explanation of current practice and as a guide for selection of conventions or procedures where alternatives exist

b. Giving examples what are the advantages of financial ratios (10 marks)

The term financial ratios refer to tools used to assess the relative strength of companies by performing simple calculation on items on income statements, balance sheet and cash flow statements.

The advantages of financial ratios are:

Financial ratios measure companies operations’ efficiency, liquidity stability and profitability giving investors more relevant information than raw financial data.

Standard method of comparison, financial ratios provide a standardized method with to compare companies and industries. Using ratios put all companies on a relatively equal playing field in the eye of analysts. Companies are judged on their performances rather than their sizes, sales volume or market share.

Industry analysis and benchmarks, financial ratios can reveal trends in particular industry creating benchmarks against which the performances of all industries players can be measured.

Stock valuation for strength and weakness, the common language and understanding of ratios helps investors and analysts to evaluate and communicate the strengths and weaknesses of individual companies or industries. Fundamental analysis is the term given to the use of financial ratios in determining the relative strength of companies for investing purposes.

Planning and performance, ratios can provide guidance to entrepreneurs when creating business plans for lenders and investors. Ratios keep managers on their toes by revealing financial weaknesses and opportunities.

1. A) Outline the features of a sound investment appraisal technique [4 Marks]

The features or characteristics of a sound investment appraisal technique are:  
It should consider the time value of money by discounting the cash flows.

* It should give direct decision criteria on when to accept or reject the project.
* There is a room for reliability and validity.
* There is an atmosphere of confidence and trust.
* Less time consuming and economical.
* Job relatedness.

(b) Clearly distinguish between the following terms as used in a financial system   
  
(i) Money Market and Capital Market

This is a market used short term lending or borrowing usually the assets are held for one year or less while capital market is a market used long term securities, therefore they have direct or indirect impact on the capital. Eg markets and debt markets   
(ii) Primary Market and Secondary Market

Primary market is a market where investors can purchase shares directly from the company. The prices in primary market are fixed while secondary market is a market where investors buy and sell the stocks and bonds among themselves. Prices in secondary market vary depending upon the demand and supply of traded securities.   
(iii) Intermediation and disintermediation [6 Marks]

Intermediation is an act of coming between or an intervention while disintermediation refers to removal of funds from a financial institution such as a bank for direct purchase of financial instruments   
  
(c) Explain briefly the factors that are considered when establishing a dividend policy for an organization by its directors. [5 Marks]

Growth factors, these factors look at the expansion

Cash dividends, this comes from retained earnings and accumulated profits

Tax factors, these factors look at taxation policies like amount of money paid the government.

Cost factors, cost is a very important factor that needs to be considered because high cost without return makes the company to be operating on losses.

Managerial control, if the company is managed properly by competent and skilled managers then it will earn profit or operate in a longer time compared to a company managed by incompetent and unskilled

1. a) Discuss the types of foreign exchange risks that a company operating  
   internationally may be exposed to. (10marks)

The term exchange risk refers to the losses that an international transaction may incur due to currency fluctuation. The types of foreign exchange risks are:   
Country risk.

Political r  
  
b) Explain each of the following currency risk it can be used to mitigate  
  
foreign exchange risks.  
Political risk.

Regulatory risk.

Currency risk.

International Trade Association risk.

a) Currency forward contracts. (3marks)

This is an agreement between two to exchange a certain amount of currency for another currency at a fixed exchange rate on a fixed future date  
b) Currency futures contract. (3marks)

This is also known as FX or future, this is a future contract to exchange one currency for another at a specified date in the future at a price that is fixed on the purchase date.  
c) Currency options (3marks)

This is also known as forex option. This is a contract that gives the buyer the right but not the obligation to buy or sell a certain currency at a specified exchange rate on or before a specified date.  
d) Currency swaps (3marks)

This is an agreement in which two parties exchange the principal amount of a loan and the interest in one currency for the principal and interest in one another currency. At the inception of the swap, the equivalent principal amounts are exchanged at the spot rate.  
  
  
e) How may global taxation affect the behavior of a transnational  
company? (6marks)

Taxation policy affects business cost costs for example; a rise in corporation tax on business profits has the same effect as increase in costs. A rise in interest rates raises the costs to business of borrowing money and also causes consumers to reduce expenditure leading to a fall in business sales

4.Define and explain the relevance of the following accounting concepts:  
 a) Accrual concept (3mark

This concept suggests the fact that the net profit is difference between revenues and expenses rather than between cash receipt and expenditures  
 b) Consistency principle (3marks)

This concept states that when a firm uses a particular method of accounting, then it should be consistently used without changing it. Changing from one method to other would lead to distortion of profits calculated from the accounting records.  
 c) Economic entity assumption (3 marks)

This concept states that the activities of the entity are to be kept separate from the activities of its owner and all other economic entities. This means that the business and the owner are separate in a legal view that a business can sue the owner or owner sue a business in a court of law in case of mismanagement  
 d) Going concern (3marks)

This concept assumes that in accounting the business is will continue to operate for an indefinite period of time. Thus no one can know in advance when business will come to an end