ACCA

Advanced Financial Management (AFM)

Pocket Notes

KAPLAN PUBLISHING

Contents

Chapter 1: The role and responsibility of the financial manager 1
Chapter 2: Investment appraisal 9
Chapter 3: International operations and international investment appraisal 19
Chapter 4: The financing decision 29
Chapter 5: The dividend decision 41
Chapter 6: The weighted average cost of capital (WACC) 53
Chapter 7: Risk adjusted WACC and adjusted present value 61
Chapter 8: Option pricing 71
Chapter 9: An introduction to risk management 79
Chapter 10: Hedging foreign exchange risk 87
Chapter 11: Hedging interest rate risk 97
Chapter 12: Strategic aspects of acquisitions 107
Chapter 13: Business valuation 117
Chapter 14: Corporate failure and reconstruction 127
Index: I.1

chapter

1

The role and responsibility of the financial manager

In this chapter

- Past exam history.
- Introduction.
- Overview of roles and responsibilities.
- Treasury departments.
- Assessing the impact of the financial manager's decisions.

Past Exam History

Topic	D19	M20	S/D 20	M/J 21	S/D 21	M/J 22	S22	D22	M/J 23	S/D 23
Ethical considerations			Q1			Q1	Q1			
Discussion of strategic issues		Q1		Q1		Q1	Q1		Q2	
Discussion of financial issues		Q1		Q1			Q1		Q2	
Discussion of treasury function	Q1				Q2	Q2	Q2			
Stakeholder discussion	Q3		Q1					Q1		
Behavioural finance		Q1								
Agency issues									Q1	

Introduction

The financial manager is responsible for making decisions which will increase the wealth of the company's shareholders.

The specific areas of responsibility are listed below.

However, it is also important that the financial manager considers the impact of the role on the other stakeholders of the firm.

Overview of roles and responsibilities

Treasury departments

Short-term management of resources

- Short term cash management – lending/borrowing funds as required.
- Currency management.

Long-term maximisation of shareholder wealth

- Raising long term finance, including equity strategy, management of debt capacity and debt and equity structure.
- Investment decisions, including investment appraisal, the review of acquisitions and divestments and defence from takeover.
- Dividend policy.

Risk management

- Assessing risk exposure.
- Interest rate risk management.
- Hedging of foreign exchange risk.

Those functions specific to international groups:

- Setting transfer prices to reduce the overall tax bill.
- Deciding currency exposure policies and procedures.
- Transferring of cash across international borders.
- Devising investment strategies for short-term funds from the range of international money markets and international marketable securities.
- Netting and matching currency obligations.

Assessing the impact of the financial manager's decisions

You may be asked in the exam to assess the

- strategic impact
- financial impact
- regulatory impact
- ethical impact
- environmental impact

of a financial manager's decisions.

Strategic impact

Key considerations:

- Does the new investment project help to enhance the firm's competitive advantage?
- Fit with environment
- Use of resources
- Stakeholder reactions
- Impact on risk.

Financial impact

Key considerations:

- Likely impact on share price
- Likely impact on financial statements
- Impact on cost of capital.

KAPLAN PUBLISHING

You are viewing a sample

Interested in the full version?

Purchase on Kaplan Publishing