

ACCA

Strategic  
Professional – Options

Advanced Financial Management  
(AFM)

Study Text

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## How to use the Materials

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chances of success in your examinations.

The product range contains a number of features to help you in the study process. They include:

- 1 Detailed study guide and syllabus objectives
- 2 Description of the examination
- 3 Study skills and revision guidance
- 4 Study text
- 5 Question practice

The sections on the study guide, the syllabus objectives, the examination and study skills should all be read before you commence your studies. They are designed to familiarise you with the nature and content of the examination and give you tips on how to best to approach your learning.

The **study text** comprises the main learning materials and gives guidance as to the importance of topics and where other related resources can be found. Each chapter includes:

- The **learning objectives** contained in each chapter, which have been carefully mapped to the examining body's own syllabus learning objectives or outcomes. You should use these to check you have a clear understanding of all the topics on which you might be assessed in the examination.
- The **chapter diagram** provides a visual reference for the content in the chapter, giving an overview of the topics and how they link together.
- The **content** for each topic area commences with a brief explanation or definition to put the topic into context before covering the topic in detail. You should follow your studying of the content with a review of the illustration/s. These are worked examples which will help you to understand better how to apply the content for the topic.
- **Test your understanding** sections provide an opportunity to assess your understanding of the key topics by applying what you have learned to short questions. Answers can be found at the back of each chapter.

- **Summary diagrams** complete each chapter to show the important links between topics and the overall content of the syllabus. These diagrams should be used to check that you have covered and understood the core topics before moving on.
- **Question practice** is provided at the back of each text.

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Our Quality Coordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

### Icon Explanations



**Definition** – Key definitions that you will need to learn from the core content.



**Key point** – Identifies topics that are key to success and are often examined.



**New** – Identifies topics that are brand new.



**Test your understanding** – Exercises for you to complete to ensure that you have understood the topics just learned.



**Illustration** – Worked examples help you understand the core content better.



**Tricky topic** – When reviewing these areas care should be taken and all illustrations and Test your understanding exercises should be completed to ensure that the topic is understood.



**Supplementary reading** – These sections will help to provide a deeper understanding of core areas. The supplementary reading is **NOT** optional reading. It is vital to provide you with the breadth of knowledge you will need to address the wide range of topics within your syllabus that could feature in an exam question. **Reference to this text is vital when self studying.**

# The role and responsibility of the financial manager

## Chapter learning objectives

### Study guide section

A1: The role and responsibility of senior financial executive/ advisor

### Study guide outcome

- (a) Develop strategies for the achievement of the organisational goals in line with its agreed policy framework.
- (b) Recommend strategies for the management of the financial resources of the organisation such that they are utilised in an efficient, effective and transparent way.
- (c) Advise the board of directors or management of the organisation in setting the financial goals of the business and in its financial policy development with particular reference to:
  - (i) Investment selection and capital resource allocation
  - (ii) Minimising the cost of capital
  - (iii) Distribution and retention policy
  - (iv) Communicating financial policy and corporate goals to internal and external stakeholders
  - (v) Financial planning and control
  - (vi) The management of risk.

- |  |   |
|--|---|
| A2: Financial strategy formulation                                       | (h) Advise on the impact of behavioural finance on financial strategies/securities prices and why they may not follow the conventional financial theories.  |
| A3: Corporate environmental, social, governance (ESG) and ethical issues | (a) Assess an organisation's commitment to ESG criteria when undertaking business, financial and investment decisions, and discuss and recommend how conflicts between the criteria may be resolved.        |
|  | (b) Assess the impact on the physical environment and the sustainability of natural resources arising from alternative organisational business, financial and investment decisions.                         |
|  | (c) Examine how the organisation manages its stakeholder groups as part of its social responsibilities.   |
|  | (d) Assess and advise on the impact of investment and financing strategies and decisions on the organisation's stakeholders.  |
|  | (e) Explore the areas within the ethical and governance framework of the organisation which may be undermined by agency issues and/or stakeholder conflicts and establish strategies for dealing with them. |
|  | (f) Recommend appropriate strategies for the resolution of stakeholder conflict in specific situations and advise on alternative approaches that may be adopted.  |

E1: The role of the treasury function in multinationals

- (g) Assess the impact of ethical and governance issues on the financial management of the organisation.
- (h) Recommend an ethical and governance framework for the development of an organisation's financial management policies, which is grounded in the highest standards of probity and is fully aligned with the ethical principles of the Association.
- (a) Discuss the role of the treasury management function within:
  - (i) The short term management of the organisations financial resources
  - (ii) The longer term maximisation of corporate value
  - (iii) The management of risk exposure.



**PER**

Four of the five ACCA PER Essentials performance objectives apply to the AFM paper (PO1, PO2, PO3 and PO5). Working through this chapter will give you an introduction to these objectives.

## 1 Key roles and responsibilities of the financial manager

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 his or her role on the other stakeholders of the firm.

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. To be successful, businesses need to generate a good financial return and perform well against "ESG criteria" (i.e. environmental, social and governance performance measures).



### Link between strategy and financial manager's role

You will remember from your earlier studies that the process of strategy selection starts with the development of a mission statement. A mission statement:

- is the overriding purpose of the firm
- guides and directs all decisions taken.

The mission is then broken down into broad-based goals, and then further, into detailed objectives. Strategies can then be developed to bridge the gap between current forecast performance and the targets set.

### Policy framework

The mission will also provide the basis for the development of a **policy framework**.

The purpose of this framework is:

- to govern the way in which decisions are taken, and
- specify the criteria to be considered in the evaluation of any potential strategy.





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