

Pathways Plus

Strategic Management and Leadership

Level 7

Unit 7003V1

Financial Management

Pathways Plus

Unit 7003V1: Financial Management

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Contents

About Pathways Plus	7
Introduction	11
Section 1 Analysing financial data	13
Topic 1: Assessing the validity of financial data	15
1.1 What is financial data?.....	15
1.2 The reliability of financial data	16
1.3 Accounting standards	18
1.4 Validating financial data	19
1.5 Organisational culture and financial control	25
Topic 2: Analytical tools and techniques.....	29
2.1 The value of financial analysis	29
2.2 Tools and techniques.....	32
Topic 3: Conducting comparative analysis of financial data .	40
3.1 Case study	40
3.2 Comparisons with competitors	43
Topic 4: The pitfalls of financial analysis	47
4.1 Redesigning the financial system	47
4.2 The limitations of comparative ratios.....	48
4.3 Industry norms	50
Section summary	53
Section 2 Budgets and organisational objectives .	55
Topic 1: Agreeing realistic budgets	57
1.1 The unpopularity of budgets.....	57
1.2 Budgeting tools	59
1.3 Budgets and people	60

1.4	Budgets and commercial constraints	64
Topic 2:	Budgets and key financial indicators	69
2.1	Linking budgets to strategic objectives.....	69
2.2	Approaches to the market	70
2.3	Sales strategy, costing system and the budget	71
2.4	Converting a budget into key financial indicators.....	73
Topic 3:	Interpreting budget outcomes	78
3.1	Variance analysis	78
3.2	Variances in the profit and loss account.....	79
3.3	Variances in the balance sheet.....	82
3.4	Variances in operating cashflow	84
3.5	Closing the gaps.....	84
Section summary	86
Section 3	Evaluating financial proposals	89
Topic 1:	Presenting a financial proposal	91
1.1	Professional report writing.....	91
1.2	Mapping to strategic objectives.....	92
1.3	Calculating the financial impact	93
1.4	Presenting the financials	93
1.5	Scenario planning.....	96
1.6	Risk assessment	96
1.7	Selling the benefits.....	97
Topic 2:	Analysing financial viability	99
2.1	The financial appraisal tools.....	99
2.2	Cost of capital.....	104
2.3	Measuring inflows and outflows of cash.....	106
Topic 3:	Feeding back on the financial proposal.....	108
3.1	Project prioritisation.....	108
3.2	Strengths and weaknesses analysis	110

3.3 Impact on organisational objectives.....	110
3.4 Organisational risk.....	111
Section summary	113
Further reading	115
Public sector	115
Private sector.....	115
Before you move on	116
Preparing for assessment	116
The Management and Leadership Standards.....	116

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There are 15 development guides in the *Pathways Plus* series to cover the 17 units of the qualifications at CMI Level 7: Strategic Management and Leadership.

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How to use the development guide

The development guides provide a critical commentary to the ideas of writers and thinkers in the management and leadership field. They offer opportunities for you to investigate and apply these ideas within your working environment and job role.

Structure

Each guide is divided into sections that together cover the knowledge and understanding required for the equivalent unit or units of the Chartered Management Institute Level 7 Strategic Management and Leadership qualifications.

Each section starts with a clear set of objectives linked to the learning outcomes of the qualification. You don't have to complete the sections in the order they appear in the guide (the mind map at the beginning of each guide will help you decide which sections and topics are of particular need or interest) but you should try to cover all sections if you are aiming for a full diploma qualification.

Activities

Throughout the guides there are activities for you to complete. These activities are designed to help you reflect on your own situation and apply your research to your organisation. Space and tables are provided within the activities for you to enter your own thoughts or findings, but in some cases you may choose to copy out the table or make notes in a separate notebook.

Timings

Timings are suggested for each activity to give you a rough idea of how long you should devote to them. They're not hard and fast, and you must decide whether you will benefit from spending longer on some activities than stated.

Supporting resources

The text of the guides is designed to provide you with an introduction to the subject and a commentary on some of the key issues, models and thinkers in the field. The activities are there to help provide a framework for your thinking. A key component of *Pathways Plus* (*Pathways Plus* because the development guides work together with the online supporting resources to provide an overall learning journey) is the list of references given throughout the text and at the end of each topic guiding you to the most appropriate supporting resources for you to explore yourself. These are marked with the symbol SR (as shown above).

You have the opportunity to select those resources that are of most interest or relevance to you and to use them as a source of guided research on a particular topic. Many of the supporting resources are immediately available by logging into CMI's online

SR

management and leadership portal, ManagementDirect (MDir) (<http://mde.managers.org.uk/members>), or where you work for an organisation that subscribes to this service use the specific link for your organisation ([http://mde.managers.org.uk/\(organisation name\)](http://mde.managers.org.uk/(organisation name))). These resources are marked in the reference list at the end of each topic with P+ standing for *Pathways Plus*. Once logged into ManagementDirect click on More.... on the navigation bar and select Senior Manager Resources, this will take you straight to the list of supporting resources as listed in the *Pathways Plus* topics. When there, click on the title of your development guide, the section and the topic you're interested in and then click straight to the article, video, checklist, extract or report that you want to find.

For those resources that are not available through the CMI site, you will be directed to other sources (some also online) to reach what you need.

Preparing for assessment

Further information on assessment is available in the Student Guide produced as part of the *Pathways Plus* series. If you have any further questions about assessment procedures, it's important that you resolve these with your tutor or centre coordinator as soon as possible.

Further reading

Suggestions for further reading and links to management information are available via ManagementDirect through the Study Support section of the Institute's website at <http://mde.managers.org.uk/members>. Alternatively, email ask@managers.org.uk or telephone 01536 207400. You will also find titles for further reading in the Bibliography at the end of this workbook.

The CMI Management Library holds an extensive range of books and pamphlets for loan to members. A postal loan service is offered to members in the UK only. You will only pay your return postal charges. Go to www.managers.org.uk/library to review the collection and to place your requests.

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Introduction

Welcome to this development guide on financial management. We suggest that you approach this guide with the following key thoughts:

- There's no such thing as 'finance' – just a financial impact of management decisions and actions.
- Managers like yourself don't need to be accountants, but you do need to understand the financial consequences of your decisions, analyse and interpret financial information and be able to communicate with financial experts.
- Financial management is based on numbers that can act as indicators or comparators against previous or expected performance – even a competitor's performance. But these need to be interpreted carefully in order to ensure indications do not become accepted as reality.
- Professional book-keeping ensures that validated data produces reliable information. You should therefore feel comfortable that any financial analysis you do, or decisions you make based on financial information you receive, is built on solid foundations.

SR 2

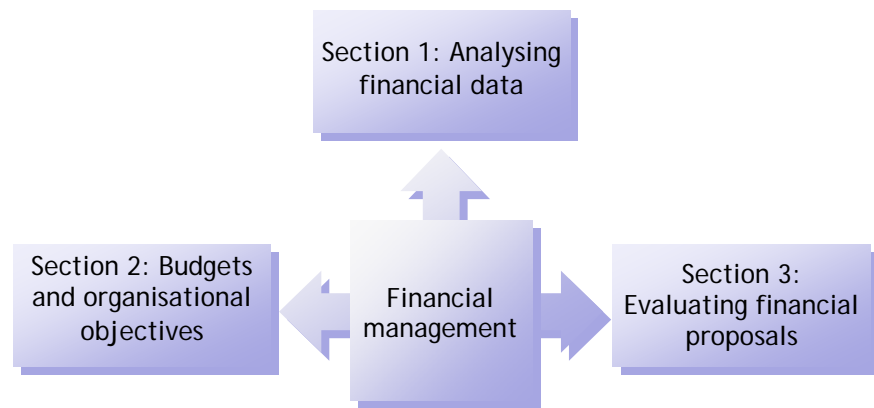
To complete this guide you should have a basic understanding and awareness of financial statements. If you've done the Level 5 qualification (Unit 5007V1 *Financial Planning*) you should have a good enough basic knowledge. If you haven't done a previous qualification that includes finance you could either refer to Unit 5007V1 or rely more on the Supporting resources lists given at the end of each topic in this guide.

The guide predominantly uses financial terminology that relates to the private sector. We recognise that many people using this guide will be working in the public sector, but as the two sectors are moving closer together this approach should be appropriate.

The guide is split into three sections. In the first section you will look at analysing financial data. Then in the second section you go on to look at the issue of ensuring that budgets meet organisational objectives. In the third, and final, section you look at how you can best evaluate financial proposals. This follows the sequence of the learning outcome for this unit.

This guide has links to other guides, in particular 7007V1 *Financial Planning* and 7004V1 *Strategic Information Management*.

Development guide mind map



Assessment

If you're studying for the Level 7 in Strategic Management and Leadership qualifications you will be assessed by your approved centre on your knowledge and understanding of the following learning outcomes:

Unit 7003V1:

- 1 Be able to analyse financial data
- 2 Be able to assess budgets based on financial data to support financial objectives
- 3 Understand how to evaluate financial proposals for expenditure submitted by others

Section 1 **Analysing financial data**

Introduction

As analysing financial data is likely to be a new subject to many, an accessible approach is to look at the subject in a very structured way, mirroring the assessment criteria for this qualification:

- Determine how to obtain financial data and assess its validity
- Apply different types of analytical tools and techniques to a range of financial documents formulating a conclusions about performance levels and needs of stakeholders
- Conduct comparative analysis of financial data
- Review and question financial data.

With this structured approach you should gain an understanding of the role of financial data at the appropriate level, and be able to prove that understanding at assessment.

Learning outcomes

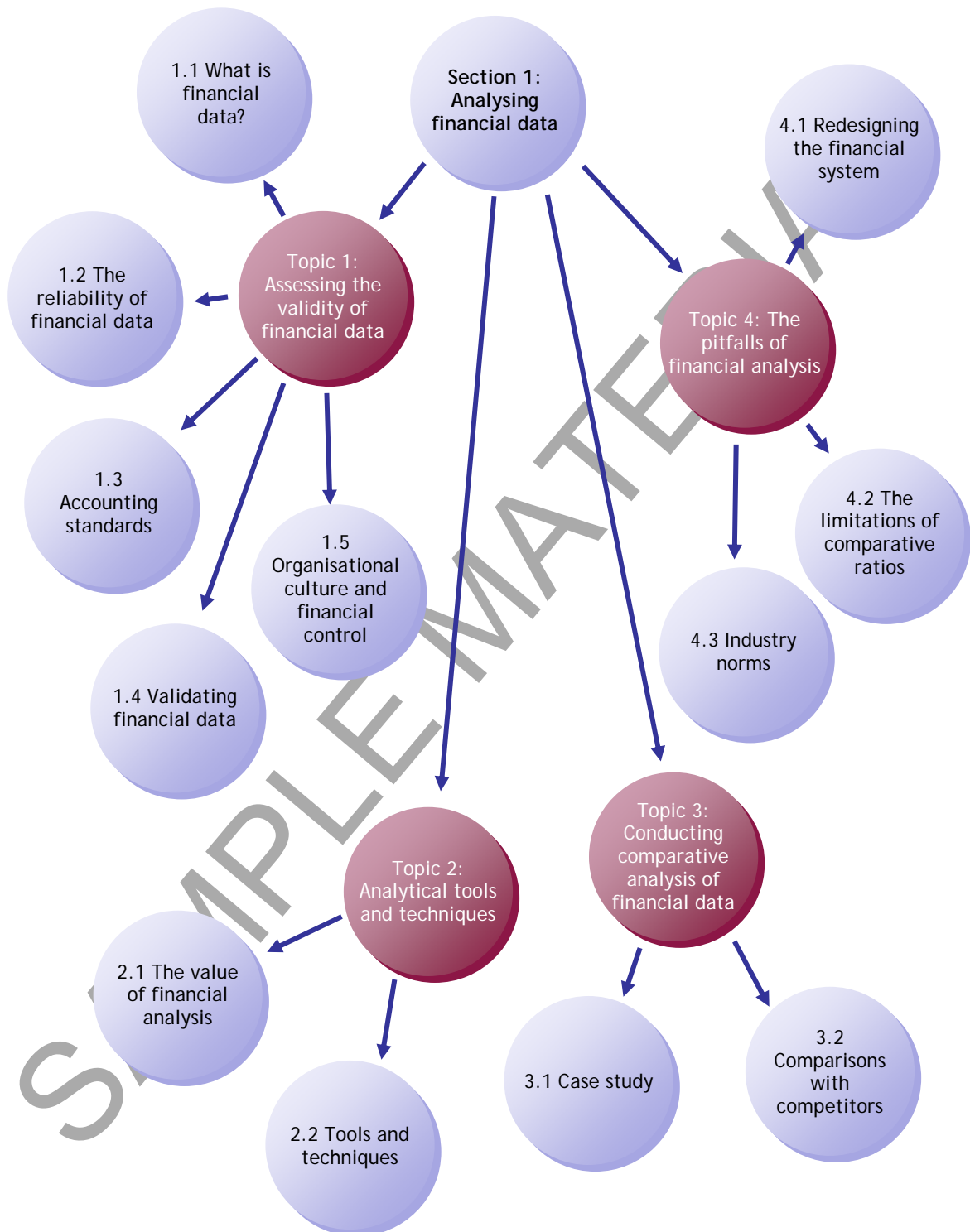
This section covers the following learning outcome:

7003V1.1 Be able to analyse financial data

SAMPLE MATERIAL

Section mind map

There are four topics in this section, as shown below. Check the subjects within each one and then continue with the areas you need to explore.



Topic 1: Assessing the validity of financial data

Introduction

This topic introduces financial data capture, processing and assuring validity.

Financial data is derived from many sources, processed in many ways and used by many people. Unfortunately, this means that there are many chances for error! Capturing the right data at the right time, processing it reliably and correctly and then sharing it in a timely fashion with the right people is fundamental to an organisation's financial control.

Organisations often have to decide between timeliness and accuracy. Taking too long to capture and process accurate data may mean that it reaches the decision makers too late. A balance is always necessary in order to gain the maximum benefit in a timely manner.

The validity of financial data is whether the data measures what it's supposed to measure, which is crucial to making well-informed decisions in any organisation.

1.1

SR 15, 18

What is financial data?

First, you need to consider the role of data in general, its transformation into information, and its combination into knowledge inside your organisation. This progressive flow can be represented as follows:



This flow shows that if you don't get step one right, then at best steps two and three are limited – and at worst they are actually flawed. This can result in misinformation, incorrect knowledge and ill-informed decisions. This is also true of financial data – 'Garbage in = Garbage out' (the GIGO principle).

For financial data you also need to distinguish between internal and external sources.

Internal sources of financial data	External sources of financial data
Your accounting system Other managers Directly from your suppliers Directly from your customers Numerous personal spreadsheets	Companies House The web (many public sector organisations use this as a means of keeping the public informed) Databases of financial information Libraries Research documents



You should consider conducting an information audit to ascertain what is, and what could be, available inside your organisation.

Activity

Activity 1.1a **30 minutes**

Make two lists below of the financial information produced within your organisation and the external financial information collected from other sources. Speak to your accountant or financial director if necessary in order to complete your lists.

Internal sources of financial data	External sources of financial data

There's no absolute answer for the internal or external sources of data that each organisation should have, but this activity should have helped you find out what's available and what kinds of data your organisation might need to generate or get hold of.

1.2 The reliability of financial data

For the purpose of this subject you're going to focus on the major sources of information. (You will find one of the terms in this box, GAAP, explained in greater detail later in the topic.)

Source of financial data	Indicators of reliability
Your accounting system	Can be influenced by: <ul style="list-style-type: none"> ■ internal audit ■ financial systems design ■ internal checks and controls ■ authority levels ■ complexity of the accounting system ■ complexity of financial reports ■ the culture of the organisation regarding importance of finance

Example: If an organisation has strict controls over purchase requisitions and purchase orders, yet gives the most junior member of the team the job of allocating account and cost-centre codes then errors may still occur in the processing of the financial data.

Source of financial data	Indicators of reliability
Published accounts	<p>Can be influenced by:</p> <ul style="list-style-type: none"> ■ accounting standards ■ auditing standards ■ interpretation of the generally accepted accounting principles (GAAP) ■ accounting statement formats ■ nationality of parent company ■ the auditing/accounting firm employed
<p>Example: A major variant in reporting in published accounts relates to the treatment of profit and depreciation. Some accounting statements refer to profit for operating activities which includes the cost of depreciation. Other systems talk about EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation), which treats depreciation as an item worthy of independent reporting.</p>	
Published sources of comparative financial information	<p>Can be influenced by:</p> <ul style="list-style-type: none"> ■ the approach of the publisher to standardising the financial statements ■ the accuracy of the translation from published data into the preferred format
<p>Example: The format of the balance sheet in the Keynote publication follows the IFAC standard.</p>	

SR 20

Activity

Activity 1.2a

45 minutes

Get hold of the published accounts of one of your competitors (or another similar company to your own). Look at the format of your published accounts and compare the layout with the accounts of the other company. What similarities and differences are there?

SAMPLE

As a comparison, you could look at the IFRS Illustrative Financial Statements published in July 2008.

SR 21

For public sector organisations you may want to look at the Treasury's website or for an international view look at the IPSAS website. The Treasury's website has a search engine and typing in 'financial statements' gives a number of different papers on the same theme, which it updates and deletes quite rapidly.

1.3 Accounting standards

There are a number of internationally accepted guardians of accounting standards.

SR 22

- **The Accounting Standards Board:** 'The role of the Accounting Standards Board (ASB) is to issue accounting standards. It is recognised for that purpose under the Companies Act 1985. ... The ASB also collaborates with accounting standard-setters from other countries and the International Accounting Standards Board (IASB) both in order to influence the development of international standards and in order to ensure that its standards are developed with due regard to international developments.'

Accounting standards developed by the ASB are contained in 'Financial Reporting Standards' (FRSs) and 'Statements of Standard Accounting Practice' (SSAPs). There are currently in the region of 30 FRSs and 12 SSAPs that organisations are expected to comply with in law in their published accounts.

SR 23

- **International Accounting Standards Board (IASB):** 'Our mission is to develop, in the public interest, a single set of high quality, understandable and international financial reporting standards (IFRSs) for general purpose financial statements.'

There are currently eight IFRSs and 41 international accounting standards (IASs) that organisations are expected to comply with in their published accounts.

The accounting bodies report that the public sector is increasingly moving towards similar reporting standards as the private sector and the UK public sector has set 2008 to 2011 as the timetable to adopt IFRS.

- **General Accepted Accounting Principles:** If the IASB is responsible for developing brand-new accounting standards then Generally Accepted Accountancy Practice (GAAP) is the way in which a number of countries tend to adopt the standard, or at least interpret it, and fit it into their individual country's accounting standards. Each country has its own GAAP, but on the whole there aren't many differences between countries. UK GAAP is, effectively, the technical manual for the accounting bodies.