

Unit Description

SME Financial Management

Level 5 – 5FM

Valid from December 2015 exams

Unit title	SME Financial Management	
Unit aim	<p>The unit aim is to develop the financial management skills for those who manage or seek to manage the performance, risk and financial decision making needs of small and medium enterprises (SMEs), and small and medium practices (SMPs).</p> <p>The unit will give an understanding, application and analysis of the funding and management of capital within an organization. In particular it will focus on the management and evaluation of investment appraisal decisions. Organisational performance and recommendations for its improvement and growth will also be analysed.</p> <p>Learners will be able to apply investment appraisal techniques to investment decisions and make recommendations. Use valuation models and cost of capital models to determine the value of an organisation and its capital structure cost. Manage foreign exchange risk, credit and gearing. Apply techniques to evaluate and make recommendations for the management of performance, resources, capital structure and risk.</p>	
Level	5	
Total Qualification Time	150	
Guided Learning Hours	0	
IFA Code	5FM	
In IFA qualifications	IFA Level 5 Diploma for SME Financial Managers	
Learning outcomes The learner will...	<p>Assessment criteria</p> <p>The learner can...</p>	Underpinning knowledge

<p>1. Evaluate investment appraisal methods and advise on strategy for SME capital projects</p>	<p>1.1 Apply the concept of the time value of money to appraise investment decisions.</p> <p>1.2 Select and apply alternative appropriate investment appraisal techniques.</p> <p>1.3 Discuss the benefits and limitations of different investment appraisal methods.</p> <p>1.4 Evaluate and make recommendations on capital and investment strategy.</p> <p>1.5 Undertake a review of capital projects.</p>	<ul style="list-style-type: none"> • Capital budgeting • The investment appraisal process • Identification of relevant cash flows • Methods of investment appraisal: • Accounting rate of return (ARR) • Payback period • Net present value • Discounted payback period • Internal rate of return (IRR) • Advantages and disadvantages of investment appraisal methods
<p>2. Assess the performance of an SME and SMP business</p>	<p>2.1 Analyse the critical success factors for the business</p> <p>2.2 Use performance indicators to evaluate the performance of the business</p> <p>2.3 Use a variety of techniques to evaluate business performance and make recommendations for improvement.</p>	<ul style="list-style-type: none"> • SWOT and PESTLE analyses • Competitor analysis • Customer profitability analysis • Life cycle costing • Balanced scorecard • Shareholder value • - Economic value added
<p>3. Assess and advise an SME on managing financial risks</p>	<p>3.1 Use hedging instruments to manage currency exchange rate risks</p> <p>3.2 Identify the factors affecting the granting of credit in the UK and internationally</p> <p>3.3 Advise management and shareholders on the management of gearing (leverage).</p>	<ul style="list-style-type: none"> • Translation, transaction and economic risks • Use of forward exchange contracts • Use of debt financing • - Financial gearing and the impact of leverage
<p>4. Evaluate sources of long-term finance and their impact on financial structure and performance for an SME</p>	<p>4.1 Make recommendations on the management of debt finance and equity</p> <p>4.2 Use the dividend valuation model (DVM) to determine the share price and cost of capital</p> <p>4.3 Discuss and apply the capital asset pricing model (CAPM) and know how to determine the weighted average cost of capital (WACC).</p>	<ul style="list-style-type: none"> • Sources of finance • Dividend valuation model (DVM) • Capital asset pricing model (CAPM) and weighted average cost of capital (WACC)

Recommended reading

Please note that where more than one book is detailed against a learning outcome any of the titles are suitable. It is not necessary to purchase each title listed against a learning outcome.

Learning outcome	Book name and author	Edition	Relevant chapters
Evaluate investment appraisal methods and advise on strategy for SME capital projects	Management & Cost Accounting, Colin Drury	Latest edition	Chs 13 & 14
	Corporate finance, Moles, Parrino & Kidwell	Latest edition	Chs 5, 7, 10, 13
	Management accounting for decision makers, Peter Atrill and Eddie McLaney	Latest edition	Ch 8
Assess the performance of an SME business	Business accounting, Frank Wood & Alan Sangster	Latest edition	Ch 47
	Business Accounting 2, Frank Wood & Alan Sangster	Latest edition	Chs 27, 28
	Management accounting for decision makers, Peter Atrill and Eddie McLaney	Latest edition	Ch 9
	Corporate finance, Moles, Parrino and Kidwell	Latest edition	Ch 20
Evaluate sources of long term finance and their impact on financial structure for an SME	Business accounting & finance, Tony Davies & Ian Crawford	Latest edition	Ch 14, 15