

Unit Description

SME Cash and Working Capital

Level 4 – 4CW

Valid from December 2015 exams

Unit title	SME Cash and Working Capital	
Unit aim	The aim of this unit is to develop knowledge and ability in identifying and evaluating sources of finance, managing and improving working capital, preparing budgets for functional departments and understand the importance of budgetary control for small and medium enterprises (SMEs) and small and medium practices (SMPs).	
Level	4	
Total Qualification Time	150	
Guided Learning Hours	0	
IFA Code	4CW	
In IFA Qualifications	IFA level 4 Diploma for SME Financial Accountants	
Learning outcomes The learner will...	Assessment criteria The learner can...	Underpinning knowledge
1. Be able to advise on the different financing options available to SMEs and SMPs.	<p>1.1 Describe the main forms of short-term and long term financing available to SMEs and SMPs.</p> <p>1.2 Explain how financing options can be accessed by a business.</p> <p>1.3 Advise on the most efficient financing options available to a business.</p>	<ul style="list-style-type: none"> • The ability to state advantages and disadvantages of differing financing methods, explain their main features and make recommendations to a business on the most suitable financing method based on their situation. • The ability to discuss different ways in which businesses can access finance and explanations of the difficulties that business can face in accessing finance. • The ability to use the CAMPARI model or similar and relate the model to a scenario.

2. Understand how SMEs and SMPs can manage cash balances and key components of their working capital.

2.1 Use internal and external sources of information to evaluate the credit status of customers.

2.2 Identify the factors affecting the granting of credit to customers.

2.3 Explain the importance of liquidity management for businesses.

2.4 Analyse different inventory control methods.

2.5 Prepare inventory control calculations to help manage the inventory control process.

2.6 Compare the options for investing surplus cash balances.

2.7 Use performance ratios analysis to assess an SME's and SMPs working capital cycle.

2.8 Advise management on efficiency and effectiveness of current cash and working capital positions and suggest methods for improvement.

- The ability to explain the different factors that a business will consider before it allows credit to a customer including credit checks and referencing. You will need to differentiate between the factors that are available within the business (internal) such as past orders and external such as credit referencing by an agency.
- The ability to use the CAMPARI model or similar and relate the model to a scenario.
- The ability to measure how effective a business is measuring its liquidity position within a business with the calculation and interpretation of performance ratios.
- The ability to control stock effectively so that stock outs do not occur. Knowledge of Just in Time (JIT) along with costs associated with stock holding and implications of stock outs.
- The ability to perform stock calculations and explain the purpose:
 - Economic order quantity
 - Re-order levels
- The ability to apply investment knowledge to a scenario to discuss the alternative options for investing surplus cash including subscribing for shares in other companies to acquiring fixed assets.
- The ability measure the working capital cycle of a business considering inventory (stock) days, receivable (debtor) days and payables (creditor) days.
- The ability to interpret financial information including balance sheet and profit and loss account figures with practical, relevant methods of improving a business. The ability to compare a business to a competitor/industry averages or track performance over a period of time is key.

<p>3. Understand the needs for effective budgetary control and the need for budgets in an SME and SMP environment.</p>	<p>3.1 Explain the behavioural aspects of budgeting in a SME and SMP environment.</p> <p>3.2 Justify the use of budgetary control for:</p> <ul style="list-style-type: none"> • Co-ordination • Responsibility allocation • Motivation • Planning/Evaluation • Communication. <p>3.3 Calculate actual to budget variances and give explanations for these variances to management.</p> <p>3.4 Set targets to enable budgets to be monitored.</p> <p>3.5 Describe the factors influencing forecast data.</p>	<ul style="list-style-type: none"> • The ability to distinguish between manufacturing businesses and service businesses from a budget perspective and preparing calculations for the functional budgets. • The ability to demonstrate the use and benefits of preparing budgets. • The ability to set clear targets which are specific, measurable, achievable, realistic with a time period specified for which the target should be achieved. • The ability to demonstrate the drawbacks of using forecasted data such as uncertainty and changes in demand.
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<p>4. Be able to prepare budgets for an SME and SMP and report on variances.</p>	<p>4.1 Prepare the budgets of an SME and SMP from forecasted data</p> <ul style="list-style-type: none"> • Sales /Production • Material • Labour • Overheads. <p>4.2 Prepare master budgets of an SME and SMP from forecasted data</p> <ul style="list-style-type: none"> • Cash budgets • Forecasted income and expenditure (income statement) • Forecasted balance sheet (statement of financial position). <p>4.3 Apply cost behaviour knowledge to forecast costs and revenues for a forecasted volume with reference to</p> <ul style="list-style-type: none"> • Fixed and variable costs • Stepped and semi-variable costs <p>4.4 Prepare a flexed budget and calculate period end variances for all cost behaviors.</p> <p>4.5 Prepare material, labour and overhead cost variances reconciling actual costs to standard costs.</p>	<ul style="list-style-type: none"> • The ability to prepare budgets for each area detailed. • The ability to prepare budgets for each area detailed. • The ability to manipulate cost figures using the different cost behaviours. The high low method will be required for isolating the fixed and variable elements of semi-variable costs. • The ability to compare actual sales and revenue to flexed standards and calculate meaningful variances with relevant and logical reasoning • The ability to prepare the following variances: <ul style="list-style-type: none"> ○ Materials price ○ Material usage ○ Labour rate ○ Labour efficiency ○ Fixed overhead expenditure ○ Fixed overhead capacity, efficiency and volume <p>The ability to split a variance between controllable and uncontrollable elements and make valid arguments as to why they have occurred and suggest realistic improvements.</p>
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Recommended reading

4CW Cash and Working Capital online learning material, IFA

Alan Dixie; *Implementing Successful Credit Control*; Management Books 2000 Ltd

John W Toomey; *Inventory Management: Principles, Concepts and Techniques*:
Kluwer Academic Publishers

Malcolm Seckett; *Brilliant Budgets and Forecasts- Your Practical Guide to Preparing and
Presenting Financial Information (Brilliant Business)*: Pearson Business

