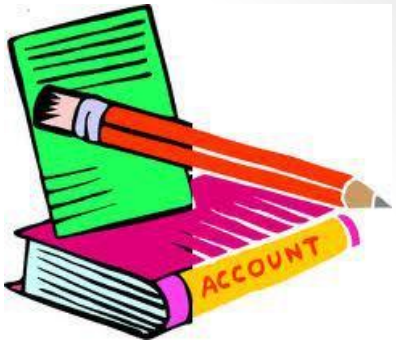

UNIT 13: MANAGING FINANCIAL PRINCIPLES AND TECHNIQUES

LECTURER: Judith Robb-Walters

UNIT 13: MANAGING FINANCIAL PRINCIPLES AND TECHNIQUES

- LO 4 : Be able to recommend cost reduction and management processes for an organisation.

THE BASIC SYLLABUS

- 1. Be able to apply cost concepts to the decision making process.

2. Be able to apply forecasting techniques to obtain information for decision making.

3.Be able to participate in the budgetary process of an organisation.

4. Be able to recommend cost reduction and management processes for an organisation.

5.Be able to use financial appraisal techniques to make strategic investment decisions for an organisation.

6.Be able to interpret financial statements for planning and decision making.

LEARNING OBJECTIVES

- Be able to participate in the budgetary process of an organisation

- At the end of the class the students should be able to:-
- Be able to use financial appraisal techniques to make strategic investment decisions for an organisation.

OVERVIEW

- Investment is the commitment of money or capital to purchase financial instruments or other assets in order to gain profitable returns in the form of interest, income, or appreciation of the value of the instrument. Investment is related to saving or deferring consumption

DEFINITION

- In finance, investment refers to the purchasing of securities or other financial assets from the capital market. It also means buying money market or real properties with high market liquidity. Some examples are gold, silver, real properties, and precious items.
- Financial investments are in stocks, bonds, and other types of security investments. Indirect financial investments can also be done with the help of mediators or third parties, such as pension funds, mutual funds, commercial banks, and insurance companies.

DEFINITION

- Investment is a term frequently used in the fields of economics, business management and finance. It can mean savings alone, or savings made through delayed consumption. Investment can be divided into different types according to various theories and principles.
- While dealing with the various options of investment, the defining terms of investment need to be kept in mind.

CAPITAL AND REVENUE EXPENDITURE

- In accounting, a distinction is made between capital expenditure and revenue expenditure. Revenue expenditure is expenditure on assets which will be consumed within an organisation's normal operating cycle.
- Another way of looking at this is that revenue expenditure is expenditure on assets which are intended for conversion into cash within the normal operating cycle. Capital expenditure relates to assets which will remain in use over a number of accounting periods – or which are not intended for conversion into cash in the short term.

CAPITAL AND REVENUE EXPENDITURE

- From this, it can be seen that capital expenditure allows an organisation to operate and thus generate profits. Therefore, another way of describing this difference is that capital expenditure improves the revenue-generating potential of the organisation, but revenue expenditure maintains it.
- Perhaps the best way to make sense of this rather theoretical explanation is to consider different types of businesses, and the items on which they incur expenditure. This is important as each classification is reported in a different manner.

CAPITAL AND REVENUE EXPENDITURE

- Revenue expenditure is reported in the income statement as an expense. Capital expenditure is reported on the statement of financial position (balance sheet) as a non-current asset.

TYPES AND INTERACTION WITH RISKS

- An important aspect of investing is understanding the types of investment risk and the best procedures to minimize the negative effects on a portfolio. The reason we want to explore the different types of risk is because we want to avoid the ultimate risk: a permanent loss of your capital. That is why every investor that accepts risk should have an investment risk management plan.

TYPES AND INTERACTION WITH RISKS

- It is a given that an investor must take risk in order to achieve rates of return above a risk-free rate of return. Because the risk-free rate of return (i.e. Treasury Bill rate) is near zero; most investors are being forced to accept additional risk to achieve investment returns that will meet their long term goals.

SENSITVITY ANALYSIS

- Sensitivity analysis is also defined as what-if analysis? This is a brainstorming technique used to determine how projected performance is affected by changes in the assumptions that those projections are based upon. What if analysis is often used to compare different scenarios and their potential outcomes based on changing conditions.
- Often used scientific research and in conjunction with business and financial risk assessments, sensitivity analysis is applicable to virtually any activity or system.

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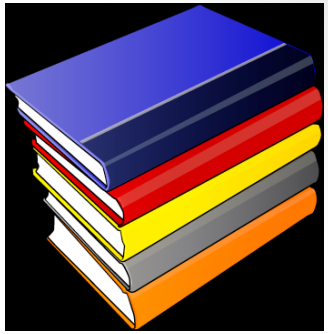

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