
Prescription: 603 Business Finance

Elective prescription

Level	6
Credit	20
Version	3
Aim	Students will apply financial management knowledge and skills to small and medium size entities for decision-making purposes.
Prerequisites	Nil
Recommended prior knowledge	500 <i>Accounting Principles</i> or equivalent knowledge and skills.

Assessment weightings

Learning outcomes	Assessment weighting %
1. Students will examine the role of business finance in small and medium entities, and the New Zealand business finance environment.	5
2. Students will apply capital budgeting techniques and evaluate investment decisions.	30
3. Students will apply working capital techniques to manage the finances of a business.	15
4. Students will compare and contrast financing options, and make recommendations for given business situations.	15
5. Students will examine capital structure and cost of capital, and calculate the cost of capital.	20
6. Students will assess the inter-relationship of financial management issues for a given business situation and provide recommendations.	15
Total	100

All learning outcomes must be evidenced; a 10% aggregate variance is allowed.

Assessment notes

1. Assessment materials should reflect relevant and current legislation, standards, regulations and acknowledged good industry/business practices
2. Assessment must include the use of spreadsheets and financial formulae.
3. Learning outcome two must focus on the critical factors relating to the investment decisions and not the decisions in choosing which capital budgeting techniques to use.
4. Learning outcome six should be assessed using an in-depth assessment tool (such as a case study) which integrates at least three aspects of the prescription.

Learning outcome one

Students will examine the role of business finance in small and medium entities, and the New Zealand business finance environment.

Key elements:

- a) The role of financial management.
- b) The impact of stakeholder demands and agency theory (including ethical considerations) on the financial goals of a firm.
- c) Business finance environment:
 - institutions
 - regulations
 - economic factors.

Learning outcome two

Students will apply capital budgeting techniques and evaluate business investment decisions.

Key elements:

- a) Capital budgeting techniques:
 - time value of money:
 - annuities and mixed stream
 - Net Present Value (NPV)
 - Internal Rate of Return (IRR)
 - one of:
 - payback
 - discounted payback
 - profitability index.
- b) Critical factors influencing business investment decisions:
 - capital rationing or unlimited funds
 - independent or mutually exclusive projects
 - expansion or replacement projects.
- c) Accounting for risk on business investment decisions:
 - expected return
 - standard deviation
 - coefficient of variation
 - one of:
 - risk adjusted discount rates
 - sensitivity analysis
 - scenario analysis.

Learning outcome three

Students will apply working capital management techniques to manage the finances of a business.

Key elements:

- a) Working capital management:
 - conservative strategy
 - aggressive strategy.
- b) Cash management.
- c) Accounts receivable management:
 - criteria for effective accounts receivable management
 - changes in credit policy.
- d) Inventory management and control methods.
- e) Accounts payable management.

Learning outcome four

Students will compare and contrast financing options, and make recommendations for given business situations.

Key elements:

- a) Short term financing, three of:
 - bank overdrafts
 - loans
 - commercial bills
 - accounts receivable financing
 - factoring of debtors
 - inventory financing.
- b) Long term financing, two of:
 - loans
 - mortgages
 - convertible notes
 - subordinate debts
 - share issues.
- c) Lease versus buy decision:
 - financial factors
 - non-financial factors.

Learning outcome five

Students will examine capital structure and cost of capital, and calculate the cost of capital.

Key elements:

- a) Debt and equity consideration:
 - financial factors
 - non financial factors.
- b) Weighted Average Cost of Capital (WACC). Three of:
 - debt
 - equity
 - preference shares
 - retained earnings.
- c) Cost of capital:
 - Capital Asset Pricing Model (CAPM):
 - Validity discussion.
- d) Capital structure decisions:
 - determination of optimal capital structure
 - operating leverage and business risk
 - financial leverage and financial risk.

Learning outcome six

Students will assess the inter-relationship of financial management issues for a given business situation and provide recommendations.

Key elements:

- a) Factors to be considered:
- feasibility/viability
 - financing options
 - working capital management impact.

Status information and last date for assessment for superseded versions

Process	Version	Date	Last Date for Assessment
Introduced	1	2006	31 October 2014
Review	2	October 2012	31 December 2017
Revision	3	June 2016	31 December 2020