Financial Management

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SYNAPSE GLOBAL INSTITUTE COMPRISES A TEAM OF ACCOMPLISHED YOUNG PROFESSIONALS WHO HAVE EXCELLED IN DIVERSE FIELDS, INCLUDING CERTIFIED PUBLIC ACCOUNTANCY, CIVIL ENGINEERING (REGISTERED), AND SUPPLY CHAIN MANAGEMENT (REGISTERED)

THE INSTITUTION EMBODIES THE CONCEPT OF A SYNAPSE, SERVING AS A VITAL CONNECTION BETWEEN EDUCATORS AND LEARNERS TO ENABLE SEAMLESS KNOWLEDGE TRANSFER

BRIDGING EDUCATORS' EXPERTISE WITH LEARNERS' AMBITIONS, IT DELIVERS ACCESSIBLE, TRANSFORMATIVE EDUCATION TAILORED FOR TODAY'S INTERCONNECTED WORLD, SHAPING FUTURES THROUGH INNOVATION AND EXCELLENCE

Preface

In today's rapidly evolving financial landscape, the intersection of traditional financial principles and emerging technologies has never been more critical. The world of finance is no longer just about managing resources—it is about leveraging innovative tools to make smarter, faster, and more informed decisions. "Financial Management in the Digital Age: Concepts, Tools, and Applications" seeks to provide both students and professionals with a comprehensive, accessible, and forward-thinking approach to financial management, blending foundational financial knowledge with the opportunities brought about by technological advancements.

This book is not just an exploration of finance in its traditional sense, but an invitation to embrace the dynamic transformation that the financial industry is undergoing. With the rise of big data, blockchain, cryptocurrencies, and artificial intelligence, finance professionals today must be equipped with not only the skills of managing cash flows and forecasting profits but also the ability to apply technology-driven insights for strategic decision-making.

RELEVANCE TO THE REVISED KASNEB SYLLABUS (JUNE 2024)

This book is specifically designed to align with the revised Kasneb syllabus for June 2024, ensuring that students pursuing the Certified Public Accountant (CPA) qualification can gain the practical skills and theoretical knowledge necessary to excel in the field of financial management. The content has been carefully crafted to meet the key learning outcomes and requirements outlined in the revised syllabus, with particular attention to areas like financial decision-making, investment analysis, capital budgeting, and cost of capital.

In keeping with the updated syllabus, the book provides a comprehensive look at:

• Capital Structure Decisions: Exploring the theory and practical applications of debt versus equity financing, and how modern technologies can optimize these decisions.

• Cost of Capital: A thorough understanding of how to calculate and apply the Weighted Average Cost of Capital (WACC) and Weighted Marginal Cost of Capital (WMCC), ensuring that students can effectively determine financing options in real-world scenarios.

• Financial Analysis: The revised syllabus emphasizes the importance of financial ratio analysis, trend analysis, and benchmarking. This book delves deeply into these methods, offering a framework for assessing profitability, liquidity, solvency, and efficiency in a rapidly changing market environment.

• Investment Appraisal Techniques: We address discounted cash flow models, NPV analysis, and the role of data analytics in optimizing investment decisions, all of which are integral to the latest syllabus.

• Emerging Trends in Finance: With blockchain, cryptocurrencies, and big data becoming increasingly important, this book incorporates these modern developments into the financial management curriculum, helping students understand their impact on financial planning, capital markets, and risk management.

This book is not just a study guide but a comprehensive resource that will aid in practical financial decision-making, giving students the tools they need to meet the standards set by the Kasneb examination framework. It aligns directly with the learning objectives of the revised CPA syllabus for 2024, ensuring that students are well-prepared for both the examinations and the dynamic challenges of the finance profession.

A FUTURE-FOCUSED APPROACH

While the foundation of financial management remains rooted in traditional principles, this book emphasizes the growing importance of technology in the field. Whether you're assessing capital budgeting decisions, risk management, or investment analysis, today's financial landscape demands a nuanced understanding of both the classical and cutting-edge tools available. Big data tools, predictive modeling, and blockchain technology now provide finance professionals with unprecedented levels of insight, and this book prepares you to apply these tools alongside fundamental financial principles.

The aim of this book is not just to equip you with knowledge but to also encourage you to think critically and strategically about how these insights and tools will shape the future of financial management. Whether you're a student, a young professional, or a seasoned expert, this book will guide you through the process of making smarter, more data-driven decisions in an ever-changing world.

Acknowledgements

I would like to extend my gratitude to everyone who contributed to this book. Special thanks to my mentors, colleagues, and industry professionals who provided invaluable insights and support. I also appreciate the efforts of the Kasneb curriculum developers, whose work has helped shape the updated syllabus and inspired this approach to financial management education.

As you read through this book, I hope you find it not only informative but also engaging, equipping you with the skills and knowledge necessary to excel in financial management and adapt to the challenges of the future.

CPA Ronoh Benson Benhard
Synapse Global Institute
2025

Table of Contents

PREFACE ..... **III**

CHAPTER 1 ..... **1**

OVERVIEW OF FINANCIAL MANAGEMENT **1**

1.1 Theoretical Framework of Financial Management 1
1.2 Goals of a Firm and Corporate Strategy 4
1.3 Agency Theory, Stakeholder Theory, and Corporate Governance 8
1.4 Measuring Managerial Performance, Compensation, and Incentives 12
1.5 Ethical Issues in Financial Management 16

CHAPTER 2 ..... **19**

THE FINANCING DECISION **19**

2.1 Nature and Objectives of the Financing Decision 19
2.2 Factors to Consider When Making Financing Decisions 22
2.3 Sources of Finance for Enterprises 25
2.4 Evaluation of Financing Options 30
2.5 Methods of Issuing Ordinary Shares 34

CHAPTER 3 ..... **38**

FINANCIAL INSTITUTIONS AND MARKETS **38**

3.1 Overview of a Financial System 38
3.2 Nature and Role of Financial Markets 41
3.3 Nairobi Securities Exchange (NSE) 45
3.4 Stock Market Indices 49
3.5 Central Depository System (CDS) and Automated Trading System (ATS) 53
3.6 Timing of Investment at the Securities Exchange 56
3.7 The Financial Institutions and Intermediaries 60
3.8 Regulation of Financial Markets 64
3.9 Factors Responsible for the Rapid Development of Financial Institutions and Markets 68
3.10 Risks Facing Financial Institutions 72

CHAPTER 4 ..... **76**

TME-VALUE OF MONEY **76**

4.1 Concept of Time Value of Money 76
4.2 Relevance of the Concept of Time Value of Money in Financial Management 78
4.3 Time Value of Money versus Time Preference of Money 82
4.4 Time Line 85
4.5 Real versus Nominal Cash Flows 88
4.6 Compounding Techniques 91
4.7 DISCOUNTING TECHNIQUES 94
4.8 Loan Amortisation and Sinking Funds 97

CHAPTER 5 ..... **100**

BUSINESS/ FINANCIAL ASSETS VALUATION MODEL **100**

5.1 Concept of Value: 100
5.2 Reasons for Valuing Financial Assets/Business 104

5.3 Theories on Valuation of Financial Assets: 107
5.4 Valuation of Redeemable, Irredeemable, and Convertible Debentures/Corporate Bonds 111
5.5 Valuation of Redeemable, Irredeemable, and Convertible Preference Shares 115
5.6 Valuation of Redeemable, Irredeemable, and Convertible Preference Shares; Valuation of Ordinary Shares 119
5.7 Valuation of Rights Issues 123
5.8 Valuation of Unit Trusts and Mutual Funds 126
5.9 Valuation of Private Companies: Income and Market-Based Approaches 129

CHAPTER 6 132

INTRODUCTION TO CAPITAL STRUCTURE DECISIONS 132

6.1 The Meaning of Capital Structure and the Factors to be Taken into Account When Making Capital Structure Decisions 132
6.2 Cost of Capital: Meaning, Practical Applications, and Component Costs of Capital 136
6.3 The Firm's Overall Cost of Capital: WACC, WMCC, and Factors Influencing the Firm's Cost of Capital 139
6.4 Leverage and Risk: Operating Leverage, Financial Leverage, and Total Leverage 143
6.5 Analysis of Operating Profit (EBIT), Earnings Per Share (EPS) at the Point of Indifference in the Firm's Earnings 146

CHAPTER 7 149

INTRODUCTION TO CAPITAL BUDGETING DECISIONS 149

7.1 The Nature and Importance of Capital Investment Decisions 149
7.2 Capital Budgeting Process 152
7.3 Capital Investment's Cash Flows 156
7.4 Capital Investment Appraisal Techniques 159
7.5 Non-Discounted Cash Flow Methods: Payback Period and Accounting Rate of Return 163
7.6 Discounted Cash Flow Methods: NPV, IRR, Profitability Index, Discounted Payback Period, and MIRR 166
7.7 Strengths and Weaknesses of the Investment Appraisal Techniques 170
7.8 Expected Relations Among an Investment's NPV, Company Value, and Share Price 174
7.9 Capital Investment Options: Timing Option, Strategic Investment Option, Replacement Option, and Abandonment Option 177
7.10 Problems/Difficulties Encountered When Making Capital Investment Decisions in Reality 180

CHAPTER 8 184

FINANCIAL STATEMENTS ANALYSIS AND FORECASTING 184

8.1 Scope of Financial Statement Analysis, Major Financial Statements and Other Information Sources, Financial Statement Analysis Framework, and Users of Financial Statements and Their Information Needs 184
8.2 Financial Statement Analysis vs Business Analysis 188
8.4 Types of Financial Statement Analysis 195
8.7 Financial Forecasting: Cash Budgeting and Percentage of Sales Method of Forecasting 200

CHAPTER 9 204

WORKING CAPITAL MANAGEMENT 204

9.1 Introduction and Concepts of Working Capital 204

9.2 Working Capital vs. Working Capital Management 207
9.3 Factors Influencing Working Capital Requirements of a Firm 210
9.4 Types of Working Capital 214
9.5 Importance and Objectives of Working Capital Management 217
9.6 Working Capital Operating Cycle; The Importance and Computation of the Working Capital Operating Cycle 220
9.7 Working Capital Financing Policies: Aggressive, Conservative, and Matching Financing Policy 224
9.8 Determining the Finance Mix: Basic Approaches for Determining an Appropriate Working Capital Finance Mix 228
9.9 Management of Inventory: Kinds of Inventory, Objectives of Inventory Management, Techniques of Inventory Management 232
9.11 Management of Accounts Re 239
ceivable and Accounts Payable: Assessing Creditworthiness, Collecting Amounts Owing, Trade Credit 239

CHAPTER 10 242

DIVIDEND DECISION 242

10.1 Meaning and Significance of Dividend Policy 242
10.2 Factors Influencing Dividend Policy 245
10.3 Forms of Dividend: Script Dividend, Cash Dividend, Stock Dividend, Bond Dividend, Property Dividend 249
10.5 Types of Dividend Policy: Regular Dividend Policy, Stable Dividend Policy, Irregular Dividend Policy, Zero Dividend Policy 257
10.6 The Impact of Dividend Payout on Share Price 261

CHAPTER 11 264

INTRODUCTION TO PORTFOLIO ANALYSIS 264

11.1 Introduction 264
Risk-Return Trade-Off/Relationship, Distinction Between Risk-Free and Risky Assets 264
11.2 Expected Return, Standard Deviation of Returns, and the Relative Risk of an Individual Asset 267
11.3 Expected Return of a 2-Asset Portfolio 269
11.4 The Covariance and Correlation Coefficient of Returns of Assets 271

CHAPTER 12 276

ISLAMIC FINANCE 276

12.1 Justification for Islamic Finance; History of Islamic Finance; Capitalism; Halal; Haram; Riba; Gharar; Usury 276
12.2 Benefits and Deficiencies of Islamic Finance 279
12.3 Principles Underlying Islamic Finance: The Principle of Not Paying or Charging Interest, The Principle of Not Investing in Forbidden Items; Ethical Investing; Moral Purchases 283
12.4 The Concept of Interest (Riba) and How Returns Are Made by Islamic Financial Securities 286
12.5 Sources of Finance in Islamic Financing 289
12.6 Types of Islamic Financial Products 292
12.7 International Standardisation / Regulations of Islamic Finance: Case for Standardisation Using Religious and Prudential Guidance, National Regulators, Islamic Financial Services Board 296

CHAPTER 13 300

PERSONAL FINANCIAL MANAGEMENT 300

13.1 Financial Problems Encountered in Managing Individual Financial Affairs 300
13.2 Savings and Investment Considerations 303
13.3 Personal Risk Management 306
13.4 Cost of Credit 309
13.5 Financial Alterations - Retirements; Estate and Tax Planning and Family Budgeting 312

CHAPTER 14 315

CONTEMPORARY ISSUES AND EMERGING TRENDS 315

14.1 Globalization and Growth of Derivative Markets and Securitization 315
14.3 Blockchain Technology 323
14.4 Crowdfunding 327
14.5 Digitisation of Financial Transactions 331
14.6 Behavioral Finance 335
14.7 Big Data in Project Finance 339

Chapter 1.

Overview of financial management

1.1 Theoretical Framework of Financial Management

Financial management is a discipline within business administration that deals with the planning, organizing, directing, and controlling of financial resources to achieve the organization's goals. At the heart of financial management is the role of the **finance manager**, who is responsible for managing the financial health of the organization. The finance manager's job is not only about maximizing profits but also balancing the interests of a range of stakeholders—shareholders, employees, society, the government, and other external parties.

In this section, we explore the theoretical framework of financial management, highlighting the finance manager's responsibilities towards different stakeholders and the overarching objectives that guide financial decision-making.

1. THE ROLE AND RESPONSIBILITIES OF A FINANCE MANAGER

The **finance manager** plays a crucial role in ensuring that an organization's financial activities align with its overall objectives and strategy. They are responsible for making decisions related to investments, financing, and dividends that have a direct impact on the company's performance and financial standing.

The finance manager's core functions typically include:

1. **Capital Budgeting**: The finance manager is responsible for evaluating long-term investment projects and deciding where to allocate the company's capital to achieve the highest possible returns.
2. **Capital Structure Decisions**: Determining the best mix of debt and equity financing to fund the company's operations and growth.
3. **Working Capital Management**: Ensuring that the company has enough liquidity to meet its short-term obligations and operate smoothly on a day-to-day basis.
4. **Financial Reporting and Control**: Overseeing the preparation of financial statements, ensuring compliance with regulations, and providing insights into financial performance to aid decision-making.
5. **Risk Management**: Identifying and mitigating financial risks that could affect the company's profitability or stability.

2. RESPONSIBILITIES TOWARDS SHAREHOLDERS

2.1 MAXIMIZING SHAREHOLDER WEALTH

Shareholders are the owners of the company, and their primary interest lies in the maximization of their wealth. The finance manager is tasked with ensuring that the company's activities contribute to increasing the **market value** of the company's stock. This is achieved through careful decision-making that balances risk and return.

KEY RESPONSIBILITIES:

- **Profit Maximization**: The finance manager seeks to increase the company's profitability by ensuring efficient use of resources, improving operational efficiency, and managing costs.
- **Dividend Policy**: Determining the optimal amount of profits to be paid out as dividends versus reinvested in the business. A finance manager must balance returning value to shareholders with maintaining adequate capital for future growth.
- **Capital Gains**: The finance manager works to enhance the company's long-term value, which ultimately increases the price of the company's shares.

EXAMPLE:

The finance manager may decide to reinvest profits into projects that offer high returns, such as expanding product lines or entering new markets, in order to boost the value of the company's shares.

3. RESPONSIBILITIES TOWARDS EMPLOYEES

3.1 FAIR COMPENSATION AND MOTIVATION

Employees are integral to the success of the organization, and the finance manager must ensure that financial resources are allocated fairly to provide competitive salaries, benefits, and incentives. Happy and motivated employees are more productive, and ensuring their welfare contributes to long-term organizational success.

KEY RESPONSIBILITIES:

- **Salary and Compensation**: Ensuring that employees are compensated fairly based on their performance, industry standards, and the company's financial capability.
- **Employee Benefits**: Providing benefits such as health insurance, retirement plans, and other perks to improve job satisfaction and employee loyalty.
- **Performance Incentives**: Structuring bonuses, stock options, and other performance-based rewards to align employees' efforts with company goals.

EXAMPLE:

In a growing company, the finance manager might allocate funds for a performance bonus scheme, where employees are rewarded based on company profitability, motivating them to contribute to business growth.

4. RESPONSIBILITIES TOWARDS SOCIETY

4.1 CORPORATE SOCIAL RESPONSIBILITY (CSR)

The finance manager plays a key role in ensuring that the company acts in a socially responsible manner. This includes investing in sustainable projects, supporting charitable initiatives, and contributing to the well-being of the community. Corporate social responsibility (CSR) has become a critical element for companies, as stakeholders increasingly expect them to contribute positively to society.

KEY RESPONSIBILITIES:

- **Environmental Sustainability**: Allocating resources to environmentally friendly practices and technologies.
- **Social Programs**: Supporting local communities, whether through donations, volunteering, or involvement in social projects.
- **Ethical Business Practices**: Ensuring that the company adheres to ethical standards and is transparent in its operations.

EXAMPLE:

The finance manager may recommend investments in clean energy technologies or community development projects, aligning the company's financial goals with societal well-being.

5. RESPONSIBILITIES TOWARDS THE GOVERNMENT

5.1 COMPLIANCE WITH REGULATIONS AND TAXATION

The finance manager is responsible for ensuring that the company complies with all applicable regulations, including tax laws, securities regulations, and accounting standards. The finance manager's role is crucial in managing the company's **tax obligations** and minimizing the company's exposure to legal risks.

KEY RESPONSIBILITIES:

- **Tax Compliance**: Ensuring the company complies with local, national, and international tax regulations.
- **Financial Reporting Standards**: Ensuring the organization adheres to accounting principles, such as **GAAP** or **IFRS**, in its financial statements.
- **Government Relations**: Building relationships with regulators and government agencies to ensure smooth operations, especially in highly regulated industries.

EXAMPLE:

The finance manager ensures that the company files its tax returns correctly, optimizes its tax structure to take advantage of available deductions or credits, and adheres to changes in tax regulations.

6. RESPONSIBILITIES TOWARDS OTHER STAKEHOLDERS

6.1 MANAGING RELATIONSHIPS WITH CREDITORS, SUPPLIERS, AND CUSTOMERS

In addition to shareholders, employees, society, and the government, the finance manager must also consider the interests of creditors, suppliers, and customers, all of whom are key stakeholders in the company's success. The finance manager ensures that financial relationships are managed in a way that supports the company's goals and contributes to its long-term sustainability.

KEY RESPONSIBILITIES:

- **Creditors**: Ensuring that the company maintains healthy relationships with creditors, pays debts on time, and manages credit risk effectively.
- **Suppliers**: Negotiating favorable terms and ensuring timely payments to suppliers, which is essential for maintaining a smooth supply chain.
- **Customers**: Understanding customer needs and pricing strategies, ensuring the company delivers value while maintaining profitability.

EXAMPLE:

A finance manager may work to negotiate favorable payment terms with suppliers or renegotiate loan terms with creditors to improve the company's liquidity.

1.2 Goals of a Firm and Corporate Strategy

1. INTRODUCTION

The **goals of a firm** represent the overarching aims or objectives that guide its operations, decision-making, and strategic direction. These goals are vital for any organization as they provide a clear sense of purpose and allow management to align resources towards achieving desired outcomes. Achieving these goals requires careful planning and coordination, which is where **corporate strategy** comes into play. Corporate strategy involves the formulation of long-term plans that define how a firm will achieve its objectives and gain a competitive advantage in the market.

In financial management, it's crucial to distinguish between **financial and non-financial objectives**. While financial goals focus on the company's profitability, growth, and shareholder wealth, non-financial goals are equally important as they contribute to sustainability, customer satisfaction, and employee well-being. The challenge for the finance manager is to balance these diverse objectives, ensuring alignment and minimizing conflicts that may arise.

This section delves into the different types of goals a firm may have, how these goals shape corporate strategy, the overlaps between financial and non-financial objectives, and the potential conflicts that managers must navigate.

. FINANCIAL OBJECTIVES

2.1 PROFIT MAXIMIZATION

One of the primary financial objectives of any firm is to maximize **profits**. Profit maximization ensures that the firm's revenues exceed its expenses, allowing it to generate the financial resources necessary for growth, investment, and value creation.

Key Aspects:

- **Revenue Growth**: Increasing sales and market share while maintaining cost control.
- **Cost Efficiency**: Reducing costs through improved operations, economies of scale, or supply chain management.
- **Short-term and Long-term Profits**: Balancing immediate profitability with the potential for sustainable growth over time.

Example:

A manufacturing company may focus on increasing its production capacity or expanding into new markets to boost revenues and increase profits. At the same time, it may work on reducing production costs through technology upgrades or supplier negotiations.

2.2 SHAREHOLDER WEALTH MAXIMIZATION

Maximizing shareholder wealth is often considered the ultimate financial goal for a firm. This objective focuses on increasing the **market value of the firm's stock**, which benefits shareholders through **capital appreciation** and **dividends**. Shareholder wealth maximization aligns with the broader objective of enhancing the company's long-term sustainability and competitive positioning.

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