

Assignment Cover Sheet

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Task 1: Study and assess the impact of both financial and non-financial factors on business decision

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Introduction

Various financial and non-financial factors are crucial in the intricate world of business decision-making. It is essential for effective business management to comprehend these factors, along with the associated risks and financial reporting methods. This article explores the factors influencing decision-making, evaluates business risks, clarifies the distinctions between accrual and cash flow methods, and examines strategies for cash flow management.

Assessment Criteria 1.1 and 1.2 on Factors (both financial and non-financial) that drive decisions making in business

Financial Factors

The value of an investment is a significant financial aspect that impacts decisions made in business. It represents the possible profits that an investment can yield in the long run. Companies typically assess investment options using measures such as Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period to confirm that the anticipated returns are worth the initial investment (Atrill, 2018). The interest rate has a significant impact on business decisions, particularly in the areas of borrowing and investing. Lower interest rates decrease the cost of borrowing, which in turn encourages businesses to seek loans for growth. On the other hand, higher interest rates raise borrowing expenses, leading businesses to be more hesitant about taking on debt (Brigham & Ehrhardt, 2017).

The cost of capital is the required return on investments for a company to preserve its market value and attract funds. It comprises both the cost of debt and the cost of equity. The cost of capital heavily influences decisions regarding financing new ventures, mergers, or acquisitions. Companies aim to pursue projects that offer returns higher than the cost of capital (Deegan, 2020).

Non-Financial Factors

Ethical considerations are essential in business decision-making. Companies that uphold high ethical standards establish trust with stakeholders, which is crucial for long-term success. Decisions that prioritize transparency, honest communication, and fair treatment of employees and customers demonstrate a commitment to ethical behavior (Atrill, 2018). Businesses are increasingly recognizing their obligations to the community and the environment. Taking into account sustainable practices and community involvement can bolster a company's reputation and customer loyalty. For instance, implementing eco-friendly manufacturing processes can reduce environmental impact and enhance public perception (Deegan, 2020). Employee morale plays a crucial role in determining productivity and overall business performance. Making decisions that prioritize employee well-being, such as fostering a positive work environment and providing opportunities for professional growth, can result in increased productivity and lower turnover rates (Gitman, Juchau, & Flanagan, 2018).

Assessment Criteria: 1.3 on the business risks impacting on financial and business decisions

The potential for losses resulting from internal and external factors is what is known as business risk. These risks have the potential to hinder a company's ability to meet its financial and operational objectives. It is essential to comprehend and effectively handle these risks in order to maintain sustainable business operations (Brigham & Ehrhardt, 2017).

Risk Elements

Credit risk refers to the possibility that a borrower will fail to meet their financial obligations, resulting in financial losses for the lender. This risk is especially important for businesses that offer credit to customers or rely on loans and credit lines for funding. To reduce credit risk, businesses must carefully evaluate the creditworthiness of their customers and partners. This can involve conducting credit assessments, setting credit limits, and requiring collateral or guarantees when necessary. Businesses can also use credit insurance to

safeguard against significant losses from customer defaults. Effective credit management not only protects a company's financial well-being but also ensures a steady cash flow and operational stability.

Exchange rate risk is caused by fluctuations in currency values, which can have a significant impact on businesses involved in international trade. For example, if a company sells products to multiple countries, any negative movement in exchange rates can decrease the value of the revenues received in foreign currencies when converted back to the company's home currency. This volatility can reduce profit margins and make financial planning difficult. To manage this risk, companies often use hedging strategies like forward contracts, options, and swaps to secure exchange rates for future transactions. This helps stabilize cash flows and protect profit margins from unexpected currency fluctuations.

Operational risk stems from internal failures within a company, such as inefficient processes, system failures, or human errors. These risks can result in substantial financial losses, regulatory penalties, and harm to the company's reputation. For instance, a breakdown in a manufacturing process could disrupt production, causing delays and unhappy customers. To minimize operational risks, businesses should implement strong internal controls, regular audits, and comprehensive risk management procedures. Investing in employee training, upgrading technology systems, and maintaining clear and efficient processes are essential steps in managing operational risks. Additionally, having a well-defined disaster recovery and business continuity plan can help businesses recover quickly from unexpected disruptions.

Market risk is the possibility of losing money because of changes in the market. This can happen when prices for things like materials go up, or when interest rates increase. Businesses can protect themselves from these risks by using financial tools like futures contracts and options. It's also important for businesses to spread out their investments and be ready to change their prices if needed. By keeping an eye on what's happening in the market, businesses can make smart decisions to avoid losing money.

Understanding and managing these risk elements exchange rate risk, credit risk, operational risk, and market risk are essential for maintaining financial stability and achieving long-term business success. Also, implementing effective risk management strategies businesses can protect themselves against potential losses and ensure sustainable growth.

Assessment Criteria: 2.1 on the differences between the accrual and cash flow approaches in financial reporting, and how it might impact business decision making

Accrual Approach

The accrual method is a way of keeping track of how much money a company makes and spends. It counts the money when it is supposed to be counted, even if the actual cash hasn't been exchanged yet. According to Atrill (2018), this helps to show a more accurate picture of how the company is doing financially. For example, if a company sells something but the customer does not pay right away, the money is still counted as soon as the sale happens.

Cash Flow Approach

The cash flow method keeps track of money coming in and going out of a business only when it is physically given or received. This helps the business know how much money they have on hand. However, it may not always show the full picture of how financially healthy the business is in the long run.

Impact on business decision-making

Even if a company is making money on paper, it can still have problems if it does not have enough cash coming in. For example, a company might look like its doing well because it has a lot of money owed to it, but if it doesn't get that money on time, it could have trouble paying its bills and might have to shut down (Deegan, 2020).

Assessment Criteria 3.1 and 3.2 on techniques to manage cash flow

Optimising inventory levels can free up cash tied in stock. Businesses should aim to balance having enough inventory to meet demand without overstocking. Techniques like Just-In-Time (JIT) inventory management help reduce holding costs and improve cash flow (Gitman, Juchau, & Flanagan, 2018). Efficiently managing accounts receivable is crucial. Implementing strict credit policies, offering early payment discounts, and following up on overdue accounts can accelerate cash inflows. For example, a company might offer a 2% discount for payments made within 10 days to encourage quicker payments from customers (Atrill, 2018). Negotiating extended payment terms with suppliers can help manage cash outflows.

Delaying payments until they are due allows businesses to utilise their cash for other operational needs. However, it's important to balance this approach to maintain good relationships with suppliers (Brigham & Ehrhardt, 2017). Businesses can sell their accounts receivable to a third party (factoring) or use invoices as collateral to secure loans (invoice

discounting). For instance, a company might sell its receivables to a factoring company at a discount to receive immediate funds (Gitman, Juchau, & Flanagan, 2018).

Regularly forecasting cash flow helps businesses anticipate and prepare for future cash needs. Accurate forecasts enable companies to plan for shortfalls and surpluses, ensuring they can meet obligations and invest strategically. For example, a detailed monthly cash flow forecast can help a company identify potential liquidity issues and take corrective actions in advance (Deegan, 2020). Keeping operational costs in check is fundamental to managing cash flow. A business might renegotiate lease terms or switch to more cost-effective suppliers to reduce expenses (Atrill, 2018).

Conclusion

To make effective business decisions, it is important to carefully consider both financial and non-financial factors. This includes understanding the impact of financial aspects such as investment value, interest rates, and cost of capital, as well as non-financial factors like employee morale and ethical considerations. It is also essential to manage business risks, understand the nuances between accrual and cash flow methods in financial reporting, and utilize strong cash flow management strategies to ensure business stability and growth. By incorporating all of these elements, businesses can make well-informed and evidence-based decisions that contribute to long-term success and practice.

Task 2 : An illustrated example using Poundland Dataset

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Introduction

This section provides an in-depth analysis of Poundland's income statement and balance sheet, interprets key financial ratios, assesses earnings per share (EPS) and return on capital employed (ROCE), discusses capital expenditure decision-making methods, evaluates sources of financing, and explores off-balance sheet financing. The goal is to understand how these elements impact Poundland's financial health and sustainability.

Assessment Criteria 2.2 on Sections of the Income Statement and Balance Sheet

The income statement provides a summary of a company's performance over a specific period, detailing revenue, expenses, and profits. On the other hand, the balance sheet provides a snapshot of the company's financial position at a specific point in time, showing what the company owns (assets) and owes (liabilities), as well as the shareholders' equity. In this section, key components of Poundland's income statement and balance sheet for the fiscal year 2015 was examined.

Income Statement

The income statement, also known as the profit and loss statement, outlines a company's financial performance over a specific period. It details revenue, expenses, and profits. For Poundland, the income statement for the fiscal year 2015 provides a clear picture of its operational efficiency and profitability. Table below summarises Poundland, 2015 income statement.

Income Statement (2015)	Amount (£ million)
Turnover	1,111.5
Cost of Sales	692.7
Gross Profit	418.8
Operating Expenses	375.1

Operating Profit	43.7
Net Profit	33.6

Source: Poundland (2015)

Turnover represents the total revenue generated by Poundland, amounting to £1,111.5 million in 2015, reflecting robust sales performance. The cost of sales was £692.7 million, which, when subtracted from turnover, results in a gross profit of £418.8 million. Operating expenses, which include costs associated with running the business, totalled £375.1 million, leaving an operating profit of £43.7 million. After accounting for all expenses, including taxes and interest, the net profit stood at £33.6 million, indicating the overall profitability of the company (Poundland Group plc, 2015).

Balance Sheet

The balance sheet provides a snapshot of a company's financial position at the end of a fiscal year, detailing assets, liabilities, and equity. For Poundland, the balance sheet for 2015 highlights the company's financial stability and liquidity.

Balance Sheet (2015)	Amount (£ million)
Fixed Assets (FA)	129.4
Current Assets (CA)	123.9
Total Assets	306.2
Long-Term Liabilities (LTL)	37.2
Current Liabilities (CL)	166.4
Total Liabilities	203.6
Equity	49.7

Source: Poundland (2015)

Fixed assets, valued at £129.4 million, represent long-term investments in property, plant, and equipment. Current assets, totalling £123.9 million, include inventories and receivables that are expected to be converted into cash within a year. The total assets of Poundland are £306.2 million. Long-term liabilities amount to £37.2 million, reflecting the company's long-term debt obligations, while current liabilities of £166.4 million indicate short-term debts. The equity, or shareholders' funds, totals £49.7 million, representing the net assets owned by the shareholders (Poundland Group plc, 2015).

Assessment Criteria 2.3 on the interpretation of the financial statements of Poundland

Interpreting financial statements is a critical aspect of financial analysis, providing insights into a company's operational efficiency, liquidity, profitability, and overall financial health. This section delves into the financial ratios derived from Poundland's income statement and balance sheet for 2015. Cross profit, operating profit, net profit, asset turnover, current, and quick ratios offer a detailed understanding of Poundland's financial performance.

Financial Ratios

Financial ratios are critical tools for evaluating a company's financial health. Key ratios for Poundland in 2015 include gross profit ratio, operating profit ratio, net profit ratio, asset turnover ratio, current ratio, and quick ratio.

Financial Ratio	2015
GP Ratio	37.7%
OP Ratio	3.9%
NP Ratio	3.0%
Asset Turnover Ratio	3.63
Current Ratio	0.74
Quick Ratio	0.26

Source: Poundland (2015)

The gross profit ratio (GP Ratio) of 37.7% indicates a healthy margin, demonstrating Poundland's ability to cover its cost of sales efficiently. The operating profit ratio (OP Ratio) of 3.9% signifies effective management of operational expenses relative to turnover. The net profit ratio (NP Ratio) of 3.0% reflects overall profitability after all expenses have been deducted. The asset turnover ratio of 3.63 signifies efficient use of assets to generate sales. However, a current ratio of 0.74 suggests potential liquidity concerns, as it is below the ideal value of 1. The quick ratio of 0.26 highlights a significant dependency on inventory for meeting short-term liabilities (Poundland Group plc, 2015).

Assessment Criteria: 4.3 on the assessment of the value of EPS, ROCE and other overall indicators for the sustainability of Poundland

Evaluating a company's earnings per share (EPS) and return on capital employed (ROCE) is crucial for understanding its profitability and efficiency in using capital to generate returns. These indicators, alongside other financial metrics, provide a comprehensive view of a company's financial health and sustainability. This section examines Poundland's EPS and ROCE for 2015, comparing them with the previous year to assess the company's performance and potential for long-term growth and sustainability.

EPS and ROCE

Earnings per share (EPS) and return on capital employed (ROCE) are essential indicators of a company's financial performance and efficiency. For Poundland, these metrics reflect profitability and effective use of capital.

Indicator	2015	2014
EPS (pence)	11.36	(1.82)
ROCE (%)	14.9	11.7

Source: Poundland (2015)

The EPS increased from (1.82) in 2014 to 11.36p in 2015, indicating a significant turnaround in profitability. The improvement in ROCE from 11.7% to 14.9% suggests enhanced efficiency in using capital to generate profits, highlighting sustainable growth (Poundland Group plc, 2015). The increase in EPS signifies a strong recovery and increased shareholder value, while the improvement in ROCE reflects improved profitability and efficient capital utilisation, which are vital for long-term sustainability.

Assessment Criteria 3.3 on methods for Poundland and whether to invest or make capital expenditures

Capital expenditure decisions are crucial for a company's long-term growth and sustainability. These decisions involve significant investments in assets that will benefit the company over several years. To ensure these investments are sound, businesses employ various capital budgeting techniques, such as payback period, accounting rate of return (ARR), net present value (NPV), discounted payback period, and internal rate of return (IRR). This section explores these methods and evaluate potential investments and make informed decisions about capital expenditures.

Capital Budgeting Techniques

Capital budgeting techniques are crucial for making informed investment decisions. Poundland can use various methods to evaluate potential capital expenditures, including the payback period, accounting rate of return (ARR), net present value (NPV), discounted payback period, and internal rate of return (IRR).

Method	Description	Advantages	Disadvantages
Payback Period	Time to recoup initial investment	Simple to understand and use	Ignores time value of money and benefits beyond payback
ARR	Return based on accounting profits	Easy to calculate and compare	Ignores cash flows and time value of money
NPV	Present value of future cash flows	Considers time value of money and cash flows	Complex to calculate and relies on accurate estimates
Discounted Payback	Payback period considering time value	More accurate than simple payback	Can be complex and difficult to interpret
IRR	Discount rate where NPV = 0	Useful for comparing profitability	Difficult to interpret with non-conventional cash flows

Source: Poundland (2015)

The payback period is suitable for assessing short-term investments but not for evaluating long-term profitability. ARR is useful for comparing profitability but less reliable than NPV or IRR. NPV and IRR provide a comprehensive view of an investment's profitability.

Assessment Criteria 2.4 on examples of the types of capital expenditure and revenue expenditures that could be incurred by Poundland

Capital and Revenue Expenditures

Poundland incurs both capital and revenue expenditures, each serving different purposes within the business. Capital expenditures involve long-term investments, while revenue expenditures cover day-to-day operational costs.

Type	Example Items	Description
Capital Expenditures	Cash counters, shelves, equipment, buildings, computer systems	Long-term investments in assets that generate value over time
Revenue Expenditures	Salaries, utility bills, delivery costs	Short-term expenses necessary for daily operations

Source: Poundland (2015)

Capital expenditures involve long-term investments like new cash counters and computer systems that enhance operational capacity and efficiency. Revenue expenditures include costs like salaries and utility bills essential for maintaining daily business operations.

Assessment Criteria 3.1 on Poundland, estimate its source of long-term financing and working capital financing

Long-Term and Working Capital Financing

Poundland can access various sources of financing for long-term and working capital needs, ensuring it has the funds necessary for growth and operational stability.

Source	Description
Long-Term Financing	Long-term loans, share capital, debentures
Working Capital Financing	Bank overdrafts, delayed payments to creditors, factoring

Long-term financing is essential for funding major projects and expansions, providing stability and growth potential. Working capital financing is critical for maintaining liquidity and operational continuity, ensuring the business can meet its short-term obligations.

Assessment Criteria 3.4 on the pros and cons of off-balance sheet financing

Advantages and Disadvantages

Off-balance sheet financing offers a way for companies like Poundland to manage financial metrics more attractively, though it comes with certain risks.

Advantage	Description	Disadvantage	Description
Lean Balance Sheet	Improved financial metrics	Hidden Risks	Potential for misinterpretation of financial health
Clean Balance Sheet	Lower debt-to-equity ratios	Regulatory Scrutiny	Increased risk of regulatory issues
Attractive Financials	Better appearance for investors	Lack of Transparency	Reduced investor trust if not disclosed transparently

Off-balance sheet financing can make Poundland's financial statements more attractive by improving perceived financial health. However, it can also hide the true financial risks and debts of the company, possibly misleading investors and stakeholders.

Conclusion

Understanding and interpreting Poundland's financial statements, managing risks, and making informed capital expenditure decisions are crucial for sustainable growth. The comprehensive analysis of EPS, ROCE, and other financial ratios provides valuable insights into the company's performance and future potential.

Task 3: Assessment Criteria on Stakeholder Analysis and Governance in Business Financial Management

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Assessment Criteria 4.2 on mind map of the main stakeholders and annotated to identify contrasting interests between owners, managers and shareholders

According to Davies (2011), mind map helps in visualizing the various stakeholders involved in a business and their contrasting interests.



In the above mind map, internal stakeholders such as owners and managers are connected to each other, indicating their close relationship within the organization. Similarly, external stakeholders like shareholders, customers, suppliers, community, and regulators are connected to each other, representing their interactions with the business from the outside.

Below is the annotated mind map for Poundland:

Annotated Mind Map: Stakeholders

- **Internal Stakeholders**

- **Owners**

- Interest: Profit maximization, business growth, and sustainability.

- **Managers**

- Interest: Operational efficiency, achieving business goals, career advancement.
- **Employees**
 - Interest: Job security, fair compensation, career development.
- **External Stakeholders**
 - **Shareholders**
 - Interest: Return on investment, dividend payments, share price appreciation.
 - **Customers**
 - Interest: Quality products, affordable prices, good service.
 - **Suppliers**
 - Interest: Long-term contracts, timely payments.
 - **Community**
 - Interest: Employment opportunities, environmental stewardship.
 - **Regulators**
 - Interest: Compliance with laws, corporate governance.

Contrasting Interests

- **Owners vs. Shareholders**
 - Owners (e.g., founders) may prioritize long-term growth and sustainability, even at the expense of short-term profits.
- **Managers vs. Owners/Shareholders**
 - Managers might focus on achieving operational targets and securing bonuses tied to performance metrics.
- **Employees vs. Managers/Owners**
 - Employees seek job security and better wages, which might conflict with cost-cutting measures proposed by managers and owners to improve profitability.

Assessment Criteria 4.1 and 4.4 on Differentiation of Governance, Accounting Ethics, and Regulatory Frameworks: FTSE-Listed vs. Private Limited Companies

In the world of big companies, there are different rules for those that are listed on the stock exchange (like FTSE-listed companies) and those that are privately owned (Companies Act 2006). FTSE-listed companies have to follow a special code called the UK Corporate Governance Code to make sure they are being fair and accountable to their shareholders (Financial Reporting Council, 2018). They have a diverse board of directors who are independent and can make sure everything is running smoothly (International Accounting Standards Board, 2018).

Private limited companies have more freedom in how they are run compared to larger companies that are publicly listed. They can choose their own rules for how they are governed and often have fewer independent directors on their board. They also have less strict rules for how they report their finances (Financial Reporting Council, 2019).

Both big companies that are listed on the stock market and smaller private companies have to follow the same rules set out in the Companies Act 2006. However, the big companies have to share more information with the public and follow stricter rules to make sure investors are protected. On the other hand, smaller private companies have to share less information and can keep more things private about how they are doing financially and the decisions they make.

Big companies that are on the stock market have to share detailed reports about their money every year and half a year. This helps people who invest in the company feel more confident. But small companies only have to share this information once a year, and they don't have to share as much detail.

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Appendix

Annotated Poundland data

Income Statement Analysis (2015)

Income Statement Item	Amount (£ million)
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Financial Ratios

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Key Financial Indicators

Indicator	2015	2014
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