### SESSION PLAN

**COURSE:** ABE Level 5 Effective Financial Management

**ELEMENT:** Element 3 – Risk and financial management

## **LEARNING OUTCOME 3**

Evaluate financial risk using suitable techniques in order to apply approaches that reduce exposure to financial risks

* 1. Assess the importance of financial risk in order to select appropriate financial management techniques
  2. Evaluate financial risk using suitable techniques in order to ensure financial management decisions take account of financial risks
  3. Apply approaches to financial risk management that reduce exposure to financial risks

**NUMBER OF SESSIONS:** Three - approximately fourteen hours in total, plus self-study

**SESSION TOPICS:** Session 1: Assess the importance of financial risk in order to select appropriate financial management techniques

Session 2: Evaluate financial risk using suitable techniques in order to ensure that financial management decisions take account of financial risks

Session 3: Apply approaches to financial risk management that reduce exposure to financial risks

**Note to tutors: this is the recommended session plan for learning outcome 3 of element 3 of the ABE Level 5 Effective Financial Management. You should follow the plan, using the resources (referenced as ‘slides’ here) and activities provided. It is important to enhance all sessions with local examples and case studies, involving the learners ACTIVELY wherever possible.**

### SESSION 1: Assess the importance of financial risk in order to select appropriate financial management techniques

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| **Approx.**  **Duration** | **Topic** | **Tutor Activity** | **Slides** | **Learner Activity** | **Formative Assessment** |
| 4-5 hours | The nature of risk and its importance in financial management | Use **5UEFM Presentation LO3**  Explain the unit, and what is going to be covered.  Explain the nature or risk and uncertainty. Risk relates to the likelihood that what is estimated to occur will not actually occur. The estimate is made following the identification and estimation of all possible outcomes.  Emphasise that uncertainty relates to circumstances in which all possible outcomes cannot necessarily be identified and/or quantified.  **Facilitate E3 LO3 Activity 1** | 1-4  5-7 | Ask learners to consider the investment and financing decisions by major multinational businesses. Learners to try to identify and explain the risks that might exist in each of these decisions.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group, | **5UEFM E3 LO3 ACTIVITY 1 –** The nature of risk and its importance |
| The normal distribution and risk | Introduce the concept of the normal distribution.  Go back to the study guide for an explanation of the role of the normal distribution in financial management.  Play this film:  <https://www.youtube.com/watch?v=xgQhefFOXrM>  **Facilitate E3 LO3 Activity 2** | 8-9 | Ask learners to consider how the normal distribution may not take account of risk in the ‘real world’.  Ask learners to identify some examples in business of circumstances in which the normal distribution did not prove to be a reliable technique with which to measure risk. | **5UEFM E3 LO3 ACTIVITY 2 –** The normal distribution and risk |
| Different types of risk and financial management processes | Look at the study guide for an explanation of the different types of risk on financial management processes and activities.  Select one of the investment and financing decisions by major multinational businesses that were considered earlier in this session. Outline the techniques that might have been used to support the management of risk once a decision has been made.  **Facilitate E3 LO3 Activity 3** | 10-12 | Now that you have identified and explained the risks that might exist in each of the decisions made by major international businesses (see chapter one), consider the techniques that might be used to support the management of risk once these decisions have been made.  Learners try to how these techniques might be of use in the management of the risks that exist when making major investment and financing decisions.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group, | **5UEFM E3 LO3 ACTIVITY 3 –** Different types of risk |
|  | Review of session and learning outcomes |  |  |  | Students to work through the third section of chapter 3 in the study guide prior to the next session. |

### SESSION 2: Evaluate financial risk using suitable techniques in order to ensure that financial management decisions take account of financial risks

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| **Approx.**  **Duration** | **Topic** | **Tutor Activity** | **Slides** | **Learner Activity** | **Formative assessment** |
| 4-5 hours | Introduction to session and learning outcomes | Use file: **5UEFM Presentation LO3** | 13 |  |  |
|  | Financial gearing | Define capital structure: explain that the mix of debt and equity financing in a business is referred to as its capital or financing structure.  Explain the concept of financial gearing and how financial gearing increases as a consequence of borrowing.  Use this YouTube film to explain this in more detail:  <https://www.youtube.com/watch?v=3dMh5RmrFrk>    **Facilitate E3 LO3 Activity 4** | 14-16 | Ask learners to consider financial gearing for the business that they identified in session 1. Use the data from these financial statements to calculate financial gearing for their selected organisation.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group. | **5UEFM E3 LO3 ACTIVITY 4 –** Financial Gearing |
|  | The significance of financial gearing and its importance to organisational activities, processes and performance | Explain the significance of financial gearing and its importance to organisational activities, processes and performance. Emphasise the role of shareholders in providing the security for the debt finance that is provided by lenders.  Use the study materials. Illustrate the relationship between financial gearing and shareholders’ funds.  Explain the nature and characteristics of perfect markets. | 17-18 | Ask learners to consider what determines the level of financial gearing and why financial gearing might be important to shareholders. Identify and discuss the factors that might influence the attitude of shareholders to the level of financial gearing.  Allow students 40 minutes to apply the model, and then to answer the question. |  |
|  | Operating gearing | Outline the nature of operating gearing. Compare and contrast operating gearing and financial gearing.  Use the study materials. Illustrate and explain the importance of operating gearing.  **Facilitate E3 LO3 Activity 5** | 19-20 | Learners to consider the importance of operating gearing for the business that they identified in session 1. Use the data from these financial statements to calculate operating gearing for their selected organisation.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group. | **5UEFM E3 LO3 ACTIVITY 5 –** Operating gearing |
|  | Review of session and learning outcomes |  |  |  | Students to work through the first section of chapter 4 in the study guide prior to the next session. |

### SESSION 3: Apply approaches to financial risk management that reduce exposure to financial risks

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| **Approx.**  **Duration** | **Topic** | **Tutor Activity** | **Slides** | **Learner Activity** | **Formative Assessment** |
| 3-4 hours | Introduction to session and learning outcomes | Use file: **5UEFM Presentation LO3** | 21 |  |  |
| Techniques for the evaluation of financial risk | Introduce the topic of approaches to financial risk management that reduce exposure to financial risks. Outline the four key techniques: sensitivity analysis, scenario analysis, expected values and simulations.  Use the study materials. Illustrate how sensitivity analysis and expected values can be used as a technique with which to reduce exposure to financial risks.  **Facilitate E3 LO3 Activity 6**  When learners have completed the activity ask them to present back their findings to the whole group. | 22-26 | Ask learners to consider the advantages and disadvantages of each of the four key techniques.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group. | **5UEFM E3 LO3 ACTIVITY 6 –** Risk Management techniques |
| Review of session and learning outcomes | Ask students to prepare for the next session by reading the first section of the next chapter in the study guide. |  |  | Ask students to read the second section of the study guide prior to the next session. |

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