Financial Strategy

Level	CPA PII	Subject Code	P203	Exam Marks	100

Assessment Level: Advanced/Conceptual/Practical/Expert/Professional

Assessment Strategy

Section A: MCQ's 05(5Marks)	**Competency Questions 7(15Marks)**	**Case Studies/Scenario base Question 1 (10Marks)**
Section B: MCQ's 05(5Marks)	**Competency Questions 7 (15Marks)**	**Case Studies/Scenario base Question 1(15Marks)**
Section C: MCQ's 05(5Marks)	**Competency Questions 5 (15Marks)**	**Case Studies/Scenario base Question 1(15Marks)**

Syllabus

Section	Lead Topics	Indicative Syllabus
Section A: 30%	Formulation of Financial Strategy	The financial and non-financial objectives of different organizations. The three key decisions of financial management and their links. Benefits of matching characteristics of investment and financing in the longer term, and in short-term hedging strategies. Considerations in the formulation of dividend policy and dividend decisions, including meeting the cash needs of the business. External constraints on financial Developing financial strategy in the context of regulatory requirements and international operations. The financial objectives of an organisation and economic forces affecting its financial plans Assessing attainment of financial objectives. Use of financial analysis in the external assessment of a Analysis of sensitivity to changes in expected values in the above models and forecasts. The lender's assessment of creditworthiness.

Section	Lead Topics	Indicative Syllabus
Section B: 35%	Financing Decisions	Identifying financing requirements (both in respect of domestic and international operations) and the impacts of different types of finance on models and forecasts of performance and position. Working capital management strategies. Types and features of domestic and international long-term finance: share capital (ordinary and preference shares, warrants), long-term debt (bank borrowing and forms of securitised debt, e.g. convertibles) and finance leases, and methods of issuing securities. The operation of stock exchanges (e.g. how share prices are determined, what causes share prices to rise or fall, and the efficient market hypothesis). The impact of changing capital structure on the market value of a company. The capital asset pricing model (CAPM): calculation of the cost of equity using the dividend growth model (knowledge of methods of calculating and estimating dividend growth will be expected), the ability to gear and un-gear betas and comparison to the arbitrage pricing model. The ideas of diversifiable risk (unsystematic risk) and systematic risk. (Note: use of the two-asset portfolio formula will not be tested). The cost of redeemable and irredeemable debt, including the tax shield on debt. The weighted average cost of capital (WACC): calculation, interpretation and uses. The lease or buy decision (with both operating and finance leases).
	Corporate Failure	The symptoms and causes of corporate failure. Avoidance of corporate failure. The nature, scope and elements of working capital and the importance of effective working capital management to corporate survival. Overtrading- symptoms, causes and remedies.

Section	Lead Topics	Indicative Syllabus
Section C: 35%	Investment Decisions and Project Control	Identification of a project’s relevant costs (e.g. infrastructure, marketing and human resource development needs), benefits and risks Linking investments with customer requirements and product/service design. Linking investment in IS/IT with strategic, operational and control needs (particularly where risks and benefits are difficult to quantify). Calculation of a project’s net present value and internal rate of return, including techniques for dealing with cash flows denominated in a foreign currency and use of the weighted average cost of capital. The modified internal rate of return based on a project’s “terminal value” (reflecting an assumed reinvestment rate). The effects of taxation (including foreign direct and withholding taxes), potential changes in economic factors (inflation, interest and exchange rates) and potential restrictions on remittances on these calculations. Recognizing risk using the certainty equivalent method (when given a risk free rate and certainty equivalent values). Adjusted present value. Valuation bases for assets (e.g. historic cost, replacement cost and realisable value), earnings (e.g. price/earnings multiples and earnings yield) and cash flows (e.g. discounted cash flow, dividend yield and the dividend growth model). The strengths and weaknesses of each valuation method and when each is most suitable, e.g. by reference to type of investee organisation (service, capital intensive etc). Forms of intangible asset (including intellectual property rights, brands etc). and methods of valuation. Application of the efficient market hypothesis to business valuations. Selection of an appropriate cost of capital for use in valuation. Capital investment real options (i.e. to make follow-on investment, abandon or wait). Single period capital rationing for divisible and non-divisible projects. Recognition of the interests of different stakeholder groups in mergers, acquisitions and company valuations. The reasons for merger or acquisitions Forms of consideration and terms for acquisitions (e.g. cash, shares, convertibles and earn-out arrangements), and their financial effects. The post-merger or post-acquisition integration process (e.g. management transfer and merger of systems). The function/role of management buy-outs and venture capitalists. Types of exit strategy and their implications. The reasons for (e.g. strategic change, opportunity cost of investment) and mechanisms of demerger or divestment. Project implementation and control in the conceptual stage, the development stage, the construction stage and initial manufacturing/operating stage. Post completion audit of investment projects.