

Business and Financial Strategy

Level CPA PI Subject Code PP303 Exam Marks 100

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

Assessment Strategy

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

Syllabus

Section	Lead Topics	Indicative Syllabus
Section A: 15%	Business Valuations	Methods of valuing a business, including: <ul style="list-style-type: none">- Asset bases.- Earnings bases.- Discounted cash flow.- Dividend yield.- Dividend growth.

Section	Lead Topics	Indicative Syllabus
Section B: 25%	Formulation of Financial Strategy	<p>The financial and non-financial objectives of different organizations.</p> <p>The three key decisions of financial management and their links.</p> <p>Benefits of matching characteristics of investment and financing in the longer term, and in short-term hedging strategies.</p> <p>Considerations in the formulation of dividend policy and dividend decisions, including meeting the cash needs of the business.</p> <p>External constraints on financial</p> <p>Developing financial strategy in the context of regulatory requirements and international operations.</p> <p>The financial objectives of an organisation and economic forces affecting its financial plans</p> <p>Assessing attainment of financial objectives.</p> <p>Use of financial analysis in the external assessment of a</p> <p>Analysis of sensitivity to changes in expected values in the above models and forecasts.</p> <p>The lender's assessment of creditworthiness.</p>

Section	Lead Topics	Indicative Syllabus
Section C: 35%	Financing Decisions	<p>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.</p> <p>Working capital management strategies.</p> <p>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.</p> <p>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).</p> <p>The impact of changing capital structure on the market value of a company.</p> <p>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.</p> <p>The ideas of diversifiable risk (unsystematic risk) and systematic risk. (Note: use of the two-asset portfolio formula will not be tested).</p> <p>The cost of redeemable and irredeemable debt, including the tax shield on debt.</p> <p>The weighted average cost of capital (WACC): calculation, interpretation and uses.</p> <p>The lease or buy decision (with both operating and finance leases).</p>
	Corporate Failure	<p>The symptoms and causes of corporate failure.</p> <p>Avoidance of corporate failure.</p> <p>The nature, scope and elements of working capital and the importance of effective working capital management to corporate survival.</p> <p>Overtrading- symptoms, causes and remedies.</p>

Section	Lead Topics	Indicative Syllabus
Section D: 25%	Investment Decisions and Project Control	<p>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.</p> <p>Linking investment in IS/IT with strategic, operational and control needs (particularly where risks and benefits are difficult to quantify).</p> <p>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.</p> <p>The modified internal rate of return based on a project's "terminal value" (reflecting an assumed reinvestment rate).</p> <p>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.</p> <p>Recognizing risk using the certainty equivalent method (when given a risk free rate and certainty equivalent values). Adjusted present value.</p> <p>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).</p> <p>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).</p> <p>Forms of intangible asset (including intellectual property rights, brands etc). and methods of valuation.</p> <p>Application of the efficient market hypothesis to business valuations.</p> <p>Selection of an appropriate cost of capital for use in valuation.</p> <p>Capital investment real options (i.e. to make follow-on investment, abandon or wait).</p> <p>Single period capital rationing for divisible and non-divisible projects.</p> <p>Recognition of the interests of different stakeholder groups in mergers, acquisitions and company valuations.</p> <p>The reasons for merger or acquisitions</p> <p>Forms of consideration and terms for acquisitions (e.g. cash, shares, convertibles and earn-out arrangements), and their financial effects.</p> <p>The post-merger or post-acquisition integration process (e.g. management transfer and merger of systems).</p> <p>The function/role of management buy-outs and venture capitalists.</p> <p>Types of exit strategy and their implications.</p> <p>The reasons for (e.g. strategic change, opportunity cost of investment) and mechanisms of demerger or divestment.</p> <p>Project implementation and control in the conceptual stage, the development stage, the construction stage and initial manufacturing/operating stage.</p> <p>Post completion audit of investment projects.</p>